

CHAPTER 1

Origins of DHS, CBP, and Expanding Footprint

Borders are heaven, they are nirvana for traffickers and for the illicit networks in which they function.¹

*Michael Miklaucic
Director, Center for Complex Operations*

The morning was just like every other morning; people took their kids to work, others were on their way for their morning coffee, and the United States lived in an isolationist bubble. A new, soon to be appointed, government employee reported for his second day in Washington, DC. Robert C. Bonner had reported for duty, but had yet to be confirmed by the U.S. Senate as the Commissioner for the U.S. Customs. At that time, U.S. Customs resided under the Treasury Department. Commissioner Bonner and the lives of everyone else in the country were about to change indefinitely. At 9:35 am, hijackers flew two commercial airplanes into the World Trade Center in New York City, one into the Pentagon in Northern Virginia, and a fourth planned to fly into the U.S. Capitol. This act of foreign grown terrorism on U.S. soil had horrific effects on the nation with 2,933 innocent lives taken. A number of changes were to come that would reverberate through the rest of U.S. history, including the invasion of Afghanistan and Iraq, the creation of the Department of Homeland Security (DHS), a change in the way the U.S. combatted terrorism, and the loss of a nation's innocence.

Immediately after the attacks, Commissioner Bonner knew that a change in the mission of U.S. Customs Service was essential to the survival of the U.S. Bonner made the dramatic change in the priority mission of Customs from interdiction of drugs and regulation of trade to

¹ Michael Miklaucic and Moises Naim, "The Criminal State," in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 149.

preventing terrorists and terrorist weapons from getting into the United States. This led to a number of changes that will be discussed later in the paper, but the first step was to refocus the agency and personnel as a whole. Commissioner Bonner began his third day with an all hands meeting of U.S. Customs employees worldwide. He emphasized the importance of the attacks and how the priority mission had changed to preventing terrorist and terrorist weapons from entering the United States.² The U.S. had been lulled into a false sense of security by the illusion that the vast oceans that surround the country and its relationship with peaceful neighbors would protect the nation. This idea of containment and mutual deterrence against this type of enemy was obviously not effective; a change had to be made. The United States, under President George Bush, took a three-pronged approach both to fighting the terrorist threat against the U.S. and global terrorism in general. First, the U.S. would go on the offensive and go after the terrorists, their leaders, and the countries that harbor them. Second, the U.S. would have a strong, coordinated defense of the homeland, which led to the formation of the new Department of Homeland Security. Lastly, the U.S. would begin an aggressive information operation campaign to undermine the jihadi message.

Since its founding in 1789, the U.S. Customs Service has guarded the U.S. ports of entry and collected tariffs on goods coming into the United States. In 1924, the U.S. Border Patrol was created primarily to stop illegal entries along the U.S.-Mexico and Canadian International Borders.³ Each agency held a similar mission of protecting the nation's borders, but were under different parent agencies. After the tragedy of September 11, 2001, Congress created the Department of Homeland Security, and both agencies merged to form U. S. Customs and Border

² Robert C. Bonner, "Securing the transnational movement of trade and people in the era of global terrorism." *Strategic Insights*, June 2006, 2-4.

³ U.S. Customs and Border Protection. "About CBP."

Protection (CBP). It is now the mission of CBP “to safeguard America's borders thereby protecting the public from dangerous people and materials while enhancing the Nation's global economic competitiveness by enabling legitimate trade and travel.”⁴ It is now understood by the U.S. government and its citizens that the U.S. must “take the fight” to the people who are attempting to do the U.S. harm. Although on a smaller scale, CBP has a direct parallel to the Department of Defense and the “War on Terror” in order to prevent attacks on the homeland. CBP is expanding into foreign countries to be more effective and keep the bad actors away from U.S. soil.

In order to fulfill the requirements of President Bush’s three-pronged strategy, an aggressive reorganization of the defense of the homeland took place. The formation of the Department of Homeland Security was the largest reorganization of the federal government since 1947. The Homeland Security Act of 2002 (P.L. 107-296) created a framework for the transfer of all or part of 22 different federal agencies into the newly formed Department of Homeland Security (DHS). This included the U.S. Customs Service, U.S. Border Patrol, and U.S. Coast Guard. Title IV of the Act created the Directorate of Homeland Security headed by the Under Secretary for Border and Transportation Security.⁵ The Directorate was tasked with three responsibilities:

- Prevent the entry of terrorists and the instruments of terrorism into the U. S.;
- Ensure the speedy, orderly, and efficient flow of lawful traffic and commerce and;
- Establish the U.S. Customs Service and the office of Customs within DHS.

⁴U.S. Customs and Border Protection, *Vision and Strategy 2020*, (Washington DC: Government Printing Office, 2014), 7.

⁵ Sec. 401 of P.L. 107-296; 6 U.S.C. 70114

The Homeland Security Act directed the President to reorganize the agencies under DHS no later than 60 days from the enactment. This moved personnel, assets, and obligations from the 22 affected agencies into DHS (See Figure 1). Part of this reorganization was the formation of a “One Border Agency” idea, which became U. S. Customs and Border Protection (CBP). In addition, the U.S. Customs Service was renamed the Bureau of Customs and Border Protection (CBP) and was to include the Office of Field Operations (OFO), U.S. Border Patrol (USBP), and later the Office of Air and Marine (OAM).⁶

The Homeland Security Act accomplished a number of goals. First, it abolished a broken Immigration and Naturalization Service (INS), which had issued visas to several of the 9/11 terrorist hijackers six months after the attacks on America. The duties of the INS were divided and streamlined among the new DHS agencies to prevent further mistakes. Second, it combined the personnel from the United States Border Patrol, previously under the Department of Justice, with the U.S. Customs Service and the border inspectors of the U.S. Department of Agriculture under the new CBP banner.⁷ This allowed for one single agency to manage, control, and secure the nation’s borders to include all the official ports of entry and the area between these ports for

⁶ On the establishment of the Department of Homeland Security, see archived CRS Report RL 31549, *Department of Homeland Security: Consolidation of Border and Transportation Security Agencies*, by Jennifer E. Lake; and archived CRS Report RL31493, *Homeland Security: Department Organization And Management—Legislative Phase*, by Harold C. Relyea.

⁷ U.S. Congress, House, Committee on Homeland Security, Reorganization Plan Modification for the Department of Homeland Security, Communication from the President of the United States, House Document 108-32, 108th Cong., 1st sess., February 3, 2003.

the purposes of preventing terrorist and terrorist weapons (bio and agro terrorism included) from entering the country, while promoting legitimate trade and travel.

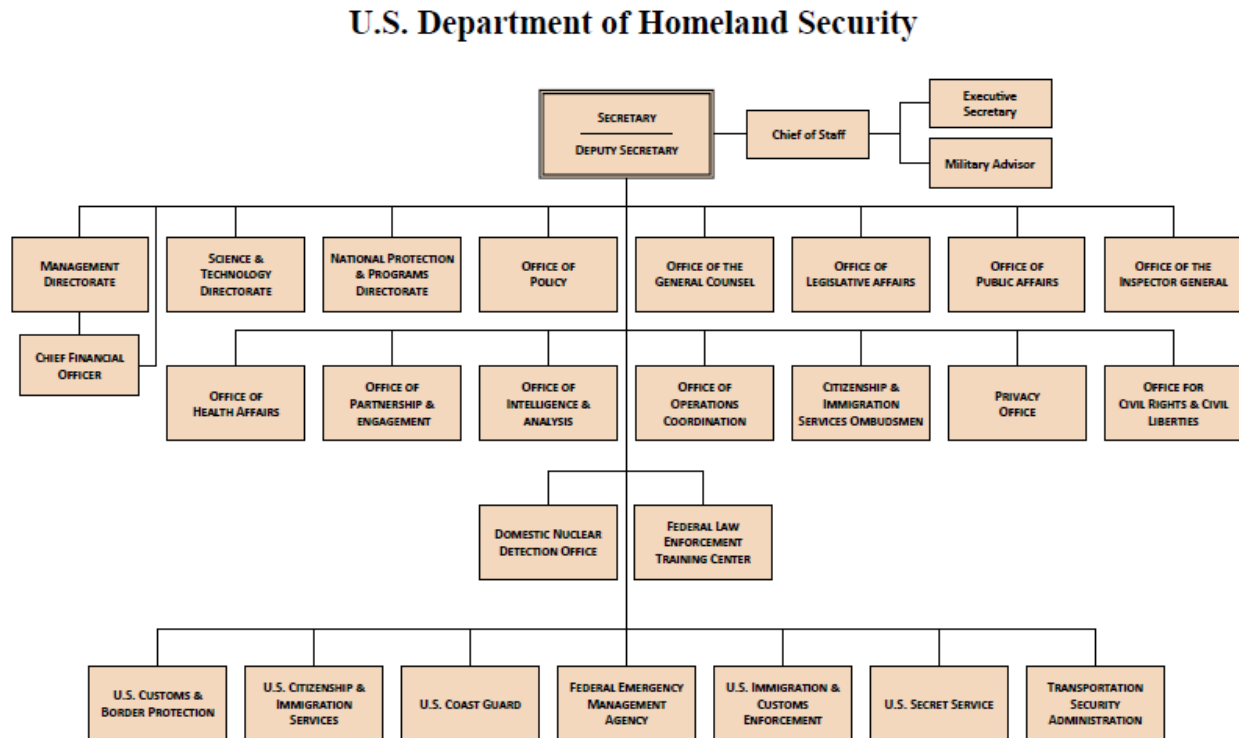


FIGURE 1. U.S. Department of Homeland Security⁸

On an average day, CBP welcomes to the United States on average one million travelers and visitors via land, air, and sea ports of entry (POE's).⁹ As the threats against the U.S. have increased over the last two decades, CBP has had to increase the buffer around the nation and not view the nation's borders as the only line of defense. A new approach being taken in concert with the nation's international partners is to create a multi-layered, intelligence driven strategy. This new strategy encompasses every aspect of CBP's mission and capabilities to ensure safe

⁸ U.S. Department of Homeland Security. "About DHS."

https://www.dhs.gov/sites/default/files/publications/Department%20Org%20Chart_1.pdf

⁹ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled 'The Outer Ring of Border Security: DHS's International Security Programs. *States News Service*, 2015. *Biography in Context*.

travel for airline passengers from the time a passenger books or purchases a ticket, to inspecting travel documents, at the airport, while in route, and upon arrival in the U.S. POE's or equivalent.

After the events of 9/11, the United States can no longer remain at home; it must go on the offensive and take the fight to the terrorists who attacked the country. The question is, "What is the best way to do this?" A number of theories developed on how best to keep the homeland secure, one technique was through deterrence operations. Deterrence operations convince the adversaries not to take actions that threaten U.S. vital interests by means of decisive influence over their decision making. This influence is achieved by credibly threatening to deny benefits and/or imposing cost, while encouraging restraint by convincing the actor that restraint will result in acceptable outcomes.¹⁰

Customs and Border Protection's capabilities in forward stationed and forward deployed areas enhance deterrence by improving the ability to act in the host nation country, as opposed to being on the zero-line. This forward presence strengthens the role of partners and expands joint and multi-national capabilities. CBP presence conveys a credible message that the U.S. will remain committed to preventing conflict and demonstrates commitment to the defense of the U.S. and strategic partners. This demonstration of U.S. political will and resolve shows that there is opposition to adversary aggression and coercion in the regions that are important to U.S. formal alliances and security relationships.¹¹ These critical relationships are determined by U.S. National Interests and the strategic areas in which CBP can provide the most impact against combatting transnational criminal organizations.

¹⁰ Deterrence Operations, *Joint Operating Concept, Version 2.0* December 2006, 26-28.

¹¹ *Ibid.*, 33.

Chapter 2

Transnational Criminal Organizations: An Evolving Threat

Just as legitimate governments and businesses have embraced advances of globalization, so too have illicit traffickers harnessed the benefits of globalization to press forward their illicit activities.

Admiral James Stavridis

Over the past decade, U.S. officials have learned that one of the biggest threats to national and international security is the development and expansion of Transnational Organized Crime (TCO). As defined by the July 2011 Strategy to Combat Transnational Organized Crime, the term, transnational organized crime, more accurately describes the emerging threat America faces today. As emphasized by the National Security Strategy, "...These threats cross borders and undermine the stability of nations, subverting government institutions through corruption and harming citizens worldwide."¹² The goal of the July 2011 Strategy to Combat Transnational Organized Crime is to reduce transnational organized crime from a national security threat to a manageable public safety problem in the U.S. and in strategic regions around the world. This will be accomplished by achieving five key policy objectives:

- 1) Protect American and our partners from the harm, violence, and exploitation of transnational criminal networks.
- 2) Help partner countries strengthen governance and transparency, break the corruptive power of transnational criminal networks, and sever state-crime alliances.
- 3) Break the economic power of transnational criminal networks and protect strategic markets and the U.S. financial system from TOC penetration and abuse.

¹ U.S. President, *Strategy to Combat Transnational Organized Crime: Addressing Converging Threats to National Security* (Washington DC: Government Printing Office, July 2011), 2-5.

- 4) Defeat transnational criminal networks that pose the greatest threat to national security by targeting their infrastructures, depriving networks of the means which enable them, and preventing the criminal facilitations of terrorist activities.
- 5) Build international consensus, multilateral cooperation, and public-private partnerships to defeat transnational organized crime.²

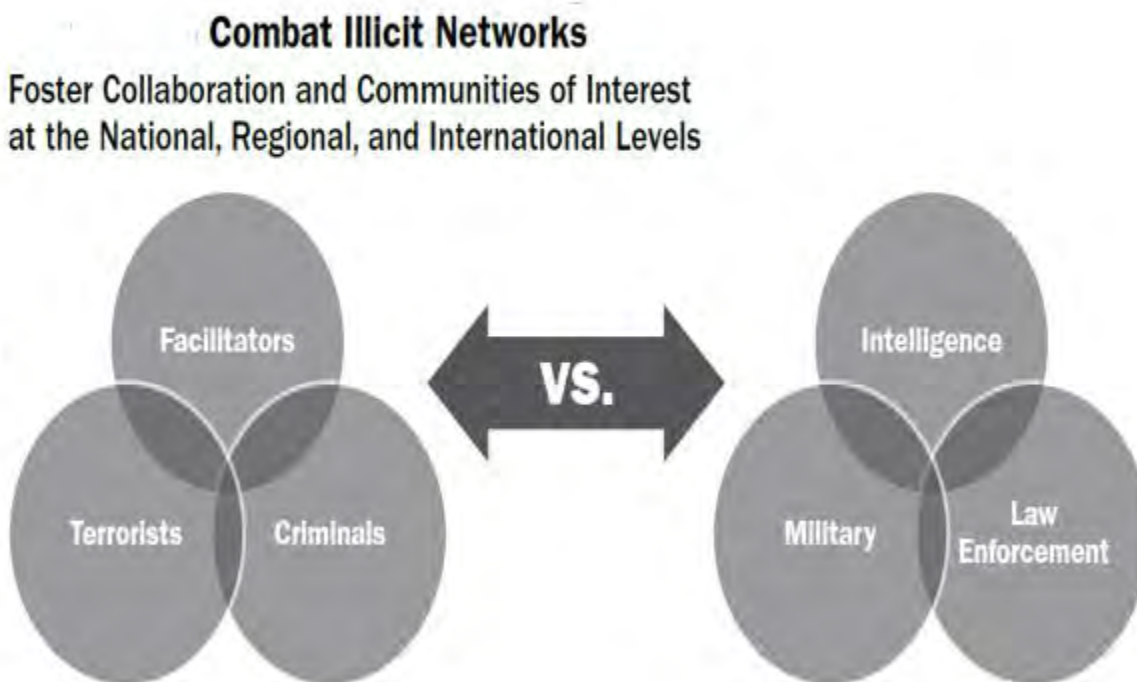


FIGURE 3.

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Bad actors and transnational criminal organizations have the ability to move illegal goods, drugs, dangerous materials, and people of interest to the “zero yard line” of the United States. Without a buffer to protect the homeland there are limited people, time, and resources to identify harmful items and individuals before they enter the U. S. and cause damage. The U. S. has relied on a geographical buffer and a positive relationship with Mexico and Canada in order to

² Ibid.

³ Celina B. Realuyo, “Collaborating to Combat Illicit Networks Through Interagency and International Efforts,” in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 263.

maintain its current security. The attacks on 9/11 proved that the buffer that had protected the U.S. has disappeared. Accordingly, CBP has expanded its division of International Affairs to build host country capacity, establish pre-clearance measures, and increase screening in foreign countries before arriving on the zero line.

CBP's expansion into a number of foreign countries is a bold and potentially dangerous move that could have negative repercussions. There are three major concerns with this expansion:

- 1) Cost. Is it fiscally responsible to have personnel detailed long term or permanently moved to these countries, along with the high cost of training for the employees and host nation personnel? Is it worth human lives and human capital to be deployed overseas as opposed to in the homeland?
- 2) Culturally. Does it have a negative impact on the host nation country and build negative stereotypes of Americans?
- 3) Operational Effectiveness. Does it detract from the mission at home and what is the effectiveness in the U. S. and overseas?

An extensive review of current literature relating to terrorism, transnational crime, and threats to U.S. trade and travel suggests that the expanding footprint is effective in protecting the homeland. These actions have had positive and negative effects on XX, but as interviews with CBP personnel and an in depth analysis of data shows the net effect is to increase America's security.⁴

Fifteen years after 9/11, it is still evident that the fight is not over, but America is making progress as noted in the alignment of missions between the National Security Strategy, the Department of Defense, and CBP. In his 2015 National Security Strategy President Obama

⁴ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015. *Biography in Context*.

wrote that, “our obligations do not end at our borders,” that the U. S. must “uphold our commitment to allies and partners,” and that “fulfilling our responsibilities depends on a strong defense and secure homeland.”⁵ President Obama’s message was previously laid out in the Quadrennial Defense Review 2014 for the priorities of the Department of Defense illustrating its importance. The Department’s strategy empathized three pillars:

- Protect the homeland, to deter and defeat attacks on the United States and to mitigate the effects of potential attacks and natural disasters.
- Build security globally, preserve regional stability, deter adversaries, support allies and partners, and cooperate with others to address common security challenges.
- Project power and win decisively to defeat aggression, disrupt and destroy terrorist networks, and provide humanitarian assistance and disaster relief.⁶

The three pillars of the Department of Defense (DOD) compliment the mission of Customs and Border Protection (CBP) and work in concert for a whole of government approach to protect U.S. national interests and security.

After the creation of DHS and the reorganization of CBP, the next step was to go on the offensive and extend the U.S. zone of security to interdict and deter threats on foreign soil as far away from the homeland as possible and to not allow the U.S. border to be the zero yard line. This was accomplished through expanding the global footprint and improving three critical areas: 1) Enforcement, 2) System and technology upgrades, and 3) Training. All of this needed to take place on foreign soil with the assistance and agreement of the host nation.⁷

⁵ U.S. President, national Security Strategy (Washington DC: Government Printing Office, February 2015), 8.

⁶ Quadrennial Defense Review, (Washington DC: Government Printing Office, May 2014), 4.

⁷ Robert Bonner. "Securing the transnational movement of trade and people in the era of global terrorism." *Strategic Insights Series*, June 2006, 18-19.

CHAPTER 3

CBP's Expanded Footprint and How to Protect the Homeland

To extend the zone of security away from the homeland, CBP implemented a new risk based layered approach. This new strategy employed innovative pre-departure security efforts before people or products departed their foreign ports. One of the key supporting capabilities is the National Targeting Center (NTC), which receives advanced passenger information identifying potential risks at the earliest time possible. CBP then works in concert with the host nations including those in Europe, North Africa, and the Middle East to provide greater situational awareness for host countries. The information provided and generated by the NTC can be utilized by CBP's overseas enforcement programs, Pre-clearance Immigration Advisory, and Joint Security Programs and Regional Carrier Liaison Groups to combat threats before they occur (these programs will be addressed in more detail later). The NTC, utilizing a whole of government approach, works closely with their parent agency, DHS and components, the Department of State, Department of Defense, and the Intelligence community to leverage all the assets, jurisdictions, and authorities to identify and address these security threats.¹

Although CBP's expansion has been successful, there have been some friction points that are continually being reworked. In December 2001, DHS Secretary Tom Ridge and Canadian Deputy Prime Minister John Manley signed the "Smart Border" Declaration and associated 30-point action plan to enhance the security of our shared border while facilitating the legitimate flow of people and goods. Some of the associated 30 point actions items included clearance away

¹ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015. *Biography in Context*.

from the border, immigration officers overseas, and international cooperation. Since the implementation of the Bush Administration strategy of smart borders there has been resistance by some countries, especially in Europe.² The international community argued that the U.S. imposed new rules on their airlines, people, and countries. The use of biometric identifiers are viewed as an intrusion on Europeans' personal data. Another debate that arose was the extra cost to the private sector because of the newly implemented extensive controls on container security. A number of other challenges that have been identified, including legal challenges concerning extraterritorial laws, internal politics within strategic partners, and implementing processes in the private sector. The Transatlantic shift and cooperation with Europe needs to be more thoroughly developed for both to mutually benefit from a global homeland security network.³

Extending the Zone of Security/Targeting and Detecting Risk (Whole of Governments Approach)

CBP extended the zone of security for the homeland using a risk based, layered approach that pushes the U.S. border security efforts outward to detect, assess, and mitigate risks posed by travelers, materials, or other threats before they reach the borders of the U.S. The Pre-departure process integrates multiple levels of capabilities and programs that form an overlapping strategy along the travel cycle of passengers and cargo. This strategy ensures that threats are detected as early as possible, while assisting the host nation country by ensuring they are also kept safe.⁴

Working through the pre-departure process and throughout the international cycle, CBP is

² Gerhard Peters and John T. Woolley, "Summary of Smart Border Action Plan Status." *The American Presidency Project*, September 9, 2002. <http://www.presidency.ucsb.edu/ws/?pid=79762> Online by Gerhard Peters and John T. Woolley (accessed December 27, 2016).

³ Patryk Pawlak, "Transatlantic homeland security cooperation: the promise of new modes of governance in global affairs." *Journal of Transatlantic Studies* 8, no. 2 (Summer 2010): 139-157.

⁴ *Congressional Research Service, U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*, by the Congressional Research Service, March 2013 (Washington, DC: Government Printing Office, 2013), 28-40.

working with the host nation, foreign partners, and other U.S. government agencies. CBP works closely with the other components of the Department of Homeland Security (DHS), the Department of State (DOS), the Department of Defense (DOD), and the intelligence community to ensure that all assets and resources are leveraged and emerging threats are identified early. On a daily basis, CBP personnel from the National Targeting Center (NTC), work with our partners in Europe, North Africa, the Middle East, and those from the Five Eyes countries (U.S., United Kingdom, Australia, Canada, and New Zealand). Specifically, two major processes can be impacted through the extended zone of security: passenger measures and cargo measures. Both have different threats to the security of the homeland and will be broken down for a more close examination.

Passenger Measures

Passenger identification and travel security has always been a security risk/concern for customs agencies all over the world. The risk of hijackings in the 1980s and the use of a plane as a weapon on 9/11 illustrated how the system needed to be greatly improved. A number of new measures were implemented to make passenger travel more secure.

Visa and Travel Authorization Security

One of the first steps in legal, international travel is to obtain the proper documents to travel abroad. This means applying for a passport, visa, travel authorizations, and the proper boarding documents. Most foreign nationals must apply for a non-immigrant visa through a U.S. Embassy or Consulate. The burden of the visa application and adjudications process lies within the Department of State, however, CBP also conducts vetting of these visas. CBP does this through the National Targeting Center and continuously vets non-immigrant visas that have been

issued, revoked, or denied. If a traveler's status changes, this rechecking ensures the traveler will not be allowed to board the conveyance. This is accomplished through heightened screening efforts with U.S. Immigration and Customs Enforcement (ICE) and the Department of State (DOS). An enhanced, automated screening system continually monitors the traveler's life cycle through their travel process. This has revolutionized and streamlined the way the U.S. government can monitor foreign nationals looking to enter the U.S. This process is a precursor system and works in tandem with DOS Security Advisory Opinion (SAO) and Advisory Opinion (AO) programs. The collaboration of the three agencies ensures the broadest of jurisdictions, authorities, expertise, and technologies to examine every passenger a number of times and through their travel.⁵

Pre-Clearance Operations

Pre-Clearance operations are CBP's highest level of overseas ability to detect, prevent, and apprehend individuals on foreign soil prior to departure for the United States. Inspection and clearance of commercial passengers overseas ensures the U.S.'s extended border strategy. This is accomplished through uniformed CBP officers with legal authority to question and inspect travelers and luggage in foreign airports. The officers complete the same immigration, customs, and agricultural inspections of passengers at foreign airports as are performed at domestic ports of entry. Passengers that are found inadmissible at the gate are not allowed to board the aircraft and travel to the U.S. This also provides cost savings to the USG because the cost of returning the individual is no longer needed. In Fiscal Year 2014, this saved approximately \$50 million dollars and kept air travel safer.⁶ Passengers that do pass inspection abroad are not required to

⁵ "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015.

⁶ Ibid.

pass any other inspection requirements upon arriving at a U.S. airport. This decreases time and increases efficiency for travelers, carriers, and airports.

Pre-clearance operations are currently in Canada, Ireland, The Bahamas, Aruba, and the United Arab Emirates. In 2014, CBP officers pre-cleared 17.4 million travelers, which accounted for 21% of all commercial aircraft inbound to the U.S. from the participating countries. Most importantly, with the respect to terrorist threats from the Middle East, the UAE receives flights from Yemen, Morocco, Nigeria, Kenya, Ethiopia, Sudan, Saudi Arabia, Pakistan, Iraq, Lebanon, Bangladesh, and India enroute to the U.S. All of these countries are high-risk pathways for terrorist travel and terrorists from these countries seek to utilize the UAE to bypass other security measures for entry into the U.S. and Europe. CBP officers in pre-clearance country airports are enabled with technology, access to data bases, and granted full inspection authority with regard to travelers and baggage. If discovered to be questionable by CBP personnel and in need of additional screening, individuals can be further investigated by DHS's Homeland Security Investigations (HSI) or the Federal Bureau of Investigation (FBI) in the host country or once arriving in the U.S.

Immigration Advisory Program (IAP) and Joint Security Program (JSP)

Two additional levels of the layered approach to passenger security before boarding the plane include the Immigration Advisory Program (IAP) and the Joint Security Program (JSP). These programs use advanced information from the NTC to identify possible terrorists and high-risk passengers. CBP Officers are posted at major gateway airports in Western Europe, Asia, and the Middle East, including Amsterdam, Frankfurt, London, Madrid, Paris, Tokyo, Mexico City, Panama City, and Doha. The CBP Officers work with the host nation countries to identify passengers linked to terrorism, narcotics, weapons, and currency smuggling. Once an individual

is identified, officers issue a no-board recommendation to the commercial carriers, which prevents the improperly documented travelers from boarding flights destined for the U.S. One limit to the program is that the officers do not have the legal authority to require the air carrier not to allow the passenger on the flight. Therefore, cooperation between the host nation, the airline, and the CBP officers is a must for the program to succeed. The recommendations are generally accepted and followed by the airlines.

CBP Carrier Liaison Program (CLP)

All of the weight of secure air travel does not fall on CBP alone. The commercial airlines and CBP realize that the safety of their passengers is important to everyone and developed the Carrier Liaison Program (CLP). Specially trained CBP officers train commercial air carrier participants to identify, detect, and disrupt improperly documented passengers. This process can identify passengers in-flight for further inspection upon landing and have their fraudulent documents removed from circulation. Since the start of the program, CBP has provided training to more than 34,800 airline industry personnel. This program, along with host nation participation, exponentially increases the number of people watching for illegal activity and improves the security of the passengers and homeland.

The Pre-Departure

Pre-Departure Targeting starts well before the passenger arrives at an airport attempting to enter the U.S. When a traveler books a ticket to travel to the U.S. a Passenger Name Record (PNR) and Advance Passenger Information System (APIS) entry is generated in the airlines' reservations system. This information includes itineraries, co-travelers, changes to the reservation, and payment information. This information is then cross-referenced with criminal

history, records of lost or stolen passports, public health records, visa refusals, prior immigration violations intelligence reports, law-enforcement data bases, and the Terrorist Screening Database (TSDB). Pre-Departure Targeting can prohibit someone from boarding the plane. If permitted to travel, further investigation continues while in-flight in order to provide more inspection upon entry to the U.S.⁷

In addition, if fraudulent, counterfeit, or altered travel documents are discovered, the documents are removed from circulation and sent to CBP's Fraudulent Document Analysis Unit (FDAU). The FDAU is a central depository and analysis center for seized documents. The FDAU can provide intelligence, alerts to field operations, and up to date pertinent training for field units on current tactics, techniques, and procedure for fraudulent documents. These functions along with removing the fraudulent document and the detaining the traveler provide another layer of enforcement along with prevention of future misuse.

Arrival Processing and Trusted Travelers

CBP's layered approach not only provides additional layers of enforcement, but also identifies low-risk travelers to facilitate speedy travel. CBP's Global Entry Program provides for expedited processing upon arrival in the U.S. for pre-approved, low-risk participants. This is accomplished through the use of secure Global Entry kiosks that have machine-readable passports technology, a fingerprint scanner, along with a complete customs declaration. Once approved, the traveler is issued a transaction receipt and directed to the baggage claim and the exit. In order to be a member of the Global Entry Program a rigorous background check and in-person interview is conducted before enrollment. Any violation of the program's terms and

⁷ Ibid.

conditions results in termination of the traveler's privileges and appropriate enforcement measures.

Cargo Measures

The second element and equally dangerous to national security is the risk of dangerous goods and material coming into the country. Weapons of mass destruction coming into the country without being detected, human smuggling, and legitimate trade with customs not being documented or paid all present significant risk and potential cost to the U.S. The following portion of the paper will illustrate how CBP's expanded footprint mitigates and identifies these concerns.

Container Security Initiative (CSI)

The Container Security Initiative (CSI) is a collaboration between CBP, Immigrations and Customs Enforcement (ICE), and host nation law enforcement agencies in CSI countries. Advanced Cargo data and high-risk containers are identified by the Nation Targeting Center (NTC) in Virginia. The identified high-risk containers are tested for radiation by Non-Intrusive Inspection (NII) scanning in the foreign ports. CBP personnel located in the host nation ports along with the host nation law enforcement agencies evaluate the results. If the results are abnormal, the U.S. and host nation agents conduct a physical inspection of the container before it is loaded on a U.S. bound ship. The Container Security Initiative is currently operational in 58 ports in 30 countries around the world. This accounts for 80% of incoming cargo flowing into the U.S. Approximately 1% of the cargo passing through CSI-participating nations is scanned

using radiation detection technology and NII scanning before being loaded and shipped to the U.S.⁸

Non-Intrusive Inspection (NII) Technology is equipment that enables CBP to detect contraband and materials that pose potential nuclear and radiological threats. The technology includes large X-ray and Gamma-ray imaging systems, as well as portable and hand held devices. More specifically, this includes, Radiation Portal Monitors (RPM), Radiation Isotopes Identification Devices (RIID), and Personal Radiation Detectors (PRD).⁹

Upon initial viewing 1% may not appear very effective and may seem to put the homeland in danger; however, the SAFE Port Act requires that 100% of cargo containers passing through U.S. POEs be scanned for radioactive material prior to being released from port. This is accomplished through choke points where all cargo is scanned with drive-through portals at U.S. ports. The radiation detection portals only need a few seconds per container to be effective. If a monitor is triggered, further tests with other technology or physical inspection are conducted. After being identified, the cargo is either released or the radioactive material is removed and further investigation into the shipper is conducted.¹⁰

⁸ CBP Office of Congressional Affairs, August 23, 2012.

⁹ U.S. Customs and Border Protection, Fact Sheet, Non-Intrusive Inspection (NII) Technology.

¹⁰ *Congressional Research Service, U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*, by the Congressional Research Service, March 2013 (Washington, DC: Government Printing Office, 2013), 28-40. CBP Office of Congressional Affairs, August 23, 2012.

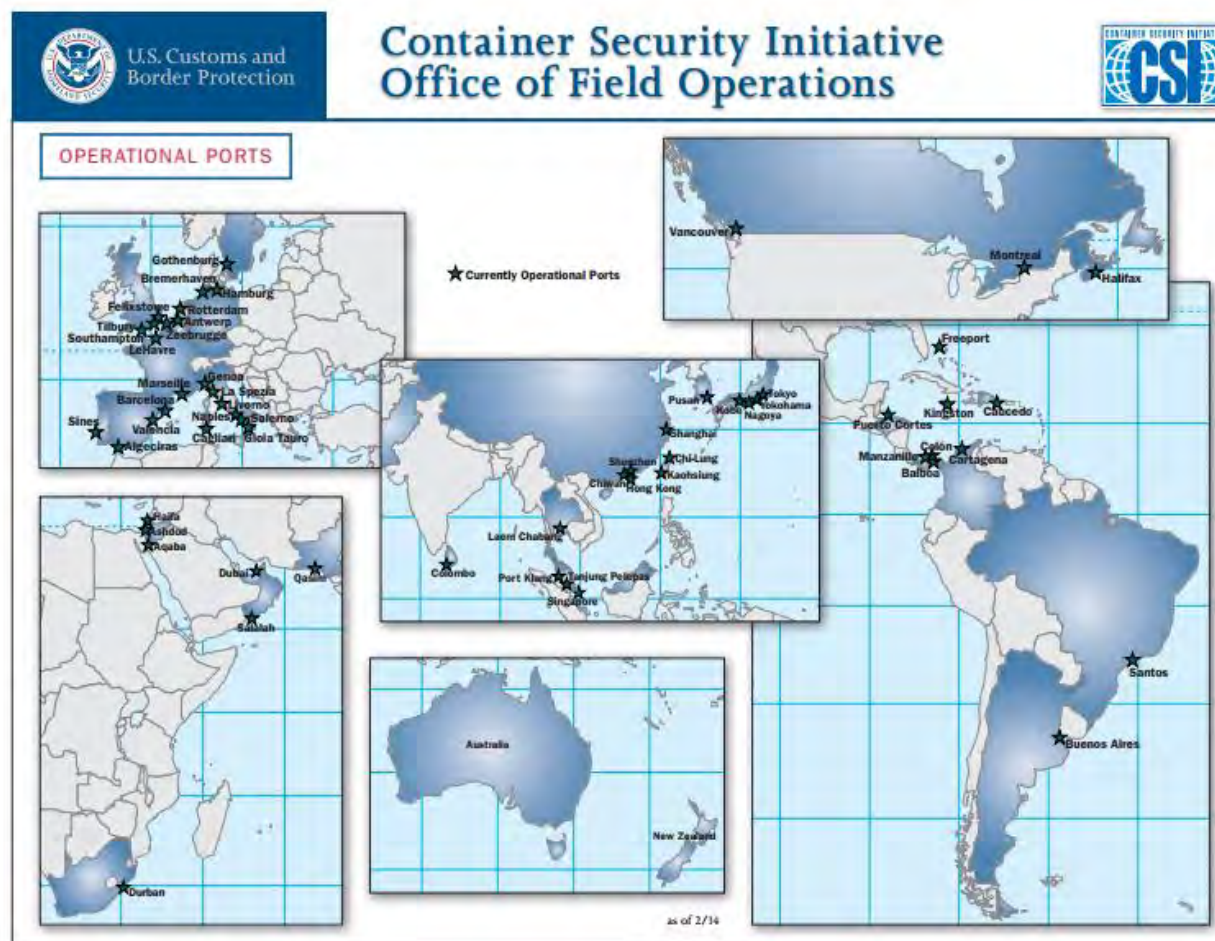


FIGURE 3.

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Advise and Train

CBP Attachés

Custom and Border Protection has also included CBP Attachés and International advisors in multiple countries around the world to increase the layered approach and to assist our international partners in capacity building programs. Attachés are posted in U.S. embassies and consulates in foreign host nations and work closely with U.S. partners and with the host nation government entities. CBP personnel work closely with U.S. investigative and intelligence

¹¹ Ibid. U.S. Customs and Border Protection.

personnel and advise the U.S. Ambassador and agencies of CBP programs and capabilities. These attachés assist in bridging the gap between the U.S. government and host nation governments in the previous mentioned programs in which necessitate host nation cooperation. International advisors typically are embedded with U.S. Department of Defense (DOD), other U.S. government agencies, or with the host nation border agencies. The advisors serve as consultants and trainers on international migration issues, infrastructure modernization, contraband detection, and interdiction. These operational relationships with the interagency and international partnerships are vital to the overseas footprint and effectiveness for U.S. and host nation security.¹²

International Advisors

The U.S. military and government civilians are often tasked with providing stability operations to countries with which the U.S. has strategic relationships or that have asked for assistance. Local police play a unique role in the reconstruction of a democratic government. Foreign militaries can suppress violence and battle crime, but it is better left to law enforcement professionals. Local law enforcement can win the allegiance of the population on behalf of the local government and bring stability back to a region. The professional manner of the local police reflects the character and capacity of the government that is being reformed and reconstructed. Therefore, the police can provide crucial information when dealing with violent political factions and demonstrate to the local populace that the government is worth supporting.

¹² "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015.

Secondly, they provide security for the citizens of that country. If the local populace does not feel secure, education, employment, and economic development are in jeopardy.¹³

U.S. Customs and Border Protection agents are deployed to countries on six of the seven continents, excluding Antarctica, to provide training and technical advice to foreign host nations. The role of the adviser can range from advising General David Petraeus in Afghanistan on how best to secure the Afghanistan/Pakistan International border; to providing tracking skills to Federal Park Rangers in Kenya to combat poaching; to technical assistance on safeguarding containers with Non-Intrusive Inspection equipment in Spain. CBP personnel are deployed all over the world for differing reasons and deployment durations. However, they all offer a very valuable service to the host nation country, enable CBP to expand its ring of influence, and provide added security for the homeland.

¹³ David H. Bayley and Robert Perito, *The police in war: fighting insurgency, terrorism, and violent crime*. (Boulder: Lynne Rienner Publishers, 210), 150.

Chapter 4

Challenges

Any type of operation or overseas deployment has a cost-benefit analysis and naysayers who think that operation is too expensive or not effective enough for continued use. As briefly highlighted in Chapter Two, there are a number of counter arguments as to why CBP should not be deployed overseas and should remain in the homeland. Budgetary concerns, cultural issues, operational effectiveness, and complexity of the problem (as seen below) are the major issues that have been offered as to why CBP's footprint should not be expanded. Because the Department of Defense is a much larger organization and has more background with such issues, the parallels, as mentioned earlier in this paper, will be analyzed along with other references for a defensible counter argument.



FIGURE 4.

1

¹ Michael Miklaucic, and Moises Naim. "The Criminal State," in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 150-151.

Budget Constraints

As with any operation, agency, or department, one's budget is what drives the ability to complete the mission. In the last 15 years, the U.S. has been involved in two very costly wars in Afghanistan and Iraq costing roughly \$ 4.8 trillion. This figure includes: direct Congressional war appropriations; war related increases to the Pentagon base budget; veteran care and disability; increase in the homeland security budget; interest payments on direct war borrowing; foreign assistance spending; and estimated future obligations for veterans' care.² Although CBP's overall budget is only a fraction of that, it still affects the overall budget of the U.S. Government and contributes to the budget constraints on all departments and agencies. The budget of CBP in 1995 was \$1.4 billion. After the attacks of 9/11, by 2006, the budget had almost quadrupled to \$4.7 billion.³ For 2017, the proposed CBP budget is \$13.9 billion. This is a considerable increase in funding for manpower, technology, and infrastructure. Within that number are the numerous personnel and operating costs needed to train, house, and protect the agents that are stationed overseas.

On May 29, 2015, Department of Homeland Security (DHS) Secretary Jeh Johnson announced DHS's intention to enter into negotiations to expand air pre-clearance to ten new foreign airports, located in nine separate countries. In 2014, nearly 20 million passengers traveled from these ten international airport to the U.S. As discussed earlier, preclearance allows for the complete inspection of the individual before boarding the flight. More than 16 million individuals traveled through one of CBP's pre-clearance locations in Canada, Ireland, the

² Watson Institute for International and Public Affairs, "Costs of War," Brown University, <http://watson.brown.edu/costsofwar/figures/2016/us-budgetary-costs-wars-through-2016-479-trillion-and-counting> (accessed December 28, 2016).

³ Harold Kennedy, "Border Security," *National Defense*, Vol. 91, Issue 632, (July 2006): 47.

Caribbean, or the United Arab Emirates in FY 2015. CBP's goal by 2024 is to process 33 percent of the U.S. bound air travelers abroad, before they ever board an airplane. The Consolidated Appropriations Act of 2016 (Pub. L. No. 114-113) provided the up-front appropriations that CBP may use to cover costs of pre-clearance operations until reimbursements are collected. The intent of this program is for reimbursements to help fund the cost of the program. These reimbursement come from airport operators. As of FY 2017, CBP has not collected any of the reimbursements from foreign airports. This, of course, may change in the future, but with the perception of the deep pockets of the U.S. government, foreign airports have been reluctant to pay to have U.S. CBP agents in their airports conducting security checks on the their citizens before departing. At issues is whether those agents and funding for them would be better utilized in the U.S. where there is positive control and better access to needed technology to conduct 100% checks. Having an effective number of agents deployed internationally performs a number of deterrence phases to the security of the homeland and increases the security of the host nation partners. The U.S. funds the CBP officers and the host nation covers the pre-clearance operations. With increased security, lower wait times for passengers, and increased throughput of cargo, the host nation is more effective and efficient. Ultimately, this program has proven to be successful and should remain, however, efforts must be increased to collect reimbursements.

Cultural Issues

Cultural issues that can provide obstacles to overseas deployment and combatting transnational criminal organizations are both external (host nation) and internal to the U.S. agencies countering these organizations. Networks of criminal organizations, terrorists, and smugglers are not a concept new to the 21st century; they are as old as man himself. The new

and emerging issues with these networks are their ability to globalize and the U.S. ability to counteract them. The methods for smuggling are no longer simple trails with donkeys loaded with illegal goods. Globalization has increased the quantity and speed at which items can move. Because of the international networks and number of players there is a lack of data regarding the operations and structures of these networks. If data is available, the networks are so complex that the computer models, testing, and tools do not have the technical capability to interpret them. This conceptual underdevelopment of the study of illicit networks and organizations is one of the core problems and provides for an enormous vacuum to counteract them.

Sociologists, criminologists, and anthropologist all perceive transnational criminal organizations as differing phenomena. Sociologist view these organizations from a model based on their discipline, emphasizing the dynamics of collective human behavior. Criminologists tend to view transnational crime as an extension of individual criminality, best left to law enforcement agencies. Anthropologists, political scientists, and international relations specialists perceive the phenomenon through their colored lenses, which are also conflicting. These academic conflicts inevitably lead to conceptual confusion, competing models, and interdisciplinary competition for a definition of what transnational criminal organization are and how to combat them.⁴

This academic confusion also bleeds over into the operational aspects of combatting international transnational criminal organizations. Lawyers will see them differently from law enforcement professional, who will see them differently from Department of Defense personnel. All have a vested interest in their niches and agendas. The number of agencies that are attempting to combat transnational crime are as numerous and varied as the networks they are

⁴ Ibid. Miklaucic, and Naim. 150-151.

attacking. Each organization has its own organizational culture, methods, authorities, jurisdictions, and idiosyncrasies. Just a few of the organizations who are involved in the effort to counter the illicit networks are: the State Department, Department of Defense, Department of Justice, Department of Homeland Security, and the Treasury Department. These parent organizations are further broken down into the Federal Bureau of Investigation; the Drug Enforcement Administration; the Bureau of Alcohol, Tobacco, Firearms, and Explosives; and the U.S. Customs and Border Protection. To further complicate issues, various intelligence agencies are involved, including the Central Intelligence Agency, Defense Intelligence Agency, and each of the DHS agency intelligence offices. Law enforcement organizations understand their role as building criminal cases and prosecuting the individual or organization in a court of law. Whereas military organizations tend to view the challenges in terms of battle campaigns and strikes. The problem of information sharing between organizations is also extremely difficult because of classifications and internal relationships. The differences that have been discussed above are just a few of the problems preventing effective cooperation and the ability to be successful against the transnational criminal networks.⁵

Even more complicated can be the relationship between host nation countries with respect to each other and with the United States. These aforementioned conceptual seams create differing perceptions of illicit networks and illicit commerce within multilateral and bilateral efforts to combat transnational crime. Some nation-states view narcotic trafficking as a demand problem, while others view it as a supply problem; counterfeiting can be seen as a violation of international law or, it may be viewed as a jobs program and method to inject money into the system. National borders are what create price differentiation and supply and demand issues that

⁵ Ibid., 150.

drive the profits of illegal commerce. Borders also provide a safe haven for criminals, terrorists, and illicit networks to hide within. The laws of the nation-state, differences in sovereignty, and border seams allow for the constant jumping back and forth between countries. This creates jurisdictional nightmares for governmental agencies working to combat illegal activities. So while borders are very confining and necessary for national sovereignty, they allow for traffickers to justify their existence, protect them, make their way of life possible, and allow their business to be profitable.⁶

Operational Effectiveness

There are three conceptual delusions regarding transnational criminal networks that influence the way nation-states, law enforcement, defense departments, and civilians combat them. The first is the attitude that crime is crime, and it has been around since the beginning of time, and there is nothing new out there. This is the wrong way to view the problem. The velocity and magnitude of illicit commerce today are unprecedented, representing between 2 to 25 percent of global products.⁷ That amount of illicit goods greatly contributes to a culture of corruption, physical threats against nation states, and the loss of billions of dollars in legal taxes and tariffs. Secondly, illicit networks and transnational crime are often viewed as just about crime and criminals. If the problem is dealt with in a traditional way, with the typical institutions of law enforcement, courts, and jails, the problem will not be solved. The challenge is with the public institutions, and integrity of public administration and their ability to provide incentives and reinforce the value of service to the state. This needs to be a grassroots effort that starts in the schools, churches, homes, and communities through media and with the application of

⁶ Ibid., 151-152.

⁷ Ibid., 152.

incentives and disincentives. Lastly, the individuals involved cannot be regarded as criminals and deviants. Cesare Lombroso, a 1900th century Italian criminologist, argued that criminal nature is inherited and represents a regression from normal human development. His theory of anthropological criminology does not apply and these criminal individuals are only a product of their situation.⁸ Just because one is a criminal does not necessarily mean he is a deviant. Approximately 8 to 10 percent of China's gross domestic product is associated with the manufacturing and sale of counterfeit goods. Even more alarming, sixty percent of Afghanistan's gross national product comes from the cultivation, production, and distribution of the poppy.⁹ Utilizing these two examples and noting the number of people who are involved in the transnational networks, are they guilty of breaking criminal statutes and deviants or just trying to provide for their families? This only adds to the complexity of the problem, who to arrest, and how to attack it.

As discussed earlier in this paper, deterrence is the primary method CBP utilizes to combat transnational crime. By utilizing multiple checks and layered security, the bad actors know it is almost impossible to avoid detection through the common channels that they would commonly move people or illegal goods. For this reason they must utilize other, more expensive, dangerous paths. These commodity chains often span significant geographic areas and require multiple steps, payments, and individuals to be successful. Those who often move the products do not have direct access to money laundering, hawala networks, or transportation networks for the profits of these commodities. Payments are made with cash, weapons, drugs,

⁸ David Horn, *The Criminal Body: Lombroso and the Anatomy of Deviance*, (New York: Routledge 2006), 18.

⁹ Ibid., Miklaucic, and Naim, 150.

chemicals or other materials that are deemed valuable to the network.¹⁰ This creates huge losses and complexities in the chain and makes the transportation of illicit goods and people very difficult.

The true issue with deterrence operations, whether in Department of Defense or U.S. Customs and Border Protection operations, is that there is no true way of knowing if deterrence is effective. The previous paragraphs illustrate how deterrence operations are intended to work and cause discomfort and confusion for transnational criminal organizations. However, there are no measures of effectiveness on the quantity of an illegal good or the number of people that are still making it into the U.S. without inspection. At best, it is estimated that only one third of all illegal aliens and illicit material are being interdicted. Some argue that CBP personnel and resources would be better allocated in the homeland where interdictions and arrests can be better measured and personnel are playing on their home turf.

Measuring direct and indirect impacts to transnational crimes require a great number of assumptions, data, and models that cannot totally be understood because of the size and complexity. However, using the United Nations Office of Drugs and Crime (UNODC's) model for impact of illegal markets it is estimated that the total amount for illegal drugs, human trafficking, excised goods, environmental crimes, and counterfeits can reach the \$1.5 trillion in direct and indirect effect on society.¹¹ With those facts it is important for CBP to do everything

¹⁰ Douglas Farah, "Fixers, Super Fixers, and Shadow Facilitator: How Networks Connect," in *Convergence: Illicit Networks and National Security in the Age of Globalization*, (Washington, D.C.: National Defense University Press, 2013), 75-76.

¹¹ Justin Picard, "Can We Estimate the Global Scale and Impact of Illicit Trade" in *Convergence: Illicit Networks and National Security in the Age of Globalization*, (Washington, D.C.: National Defense University Press, 2013), 57.

in its power to combat these issues. Providing deterrence in foreign countries to increase the chance of seizures and the arrest of individuals is well worth the effort, risk, and funding.

Chapter 5

Recommendations and Conclusion

Recommendations

This paper has outlined the benefits of CBP's expansion overseas and will provide recommendations on how that expansion can continue and improve both the host nation and the U.S.'s national security. The first recommendation is to continue the assessment of the countries in which CBP is invested. The Assistant Commissioner of International Affairs, Mark R. Koumans, twice a year has either a face-to-face or a secure video teleconference meeting with all of the CBP attachés worldwide to discuss the status of CBP, the impact it is having in those host nations, and if continued engagement is needed. These semi-annual assessments ensure that CBP's personnel and budget are utilized wisely and effectively. The agency and the attachés are flexible and adaptable enough that if they need to return to the U.S. it can be accomplished rather quickly.

Second, CBP should continue and expand its overseas short term deployment to countries that request assistance. The Border Patrol Special Operations Group needs to continue to send teams to countries that need assessments. Short term deployment teams are able to assess what a country's border enforcement capability and capacities are and how to improve them. The gaps could be in hiring, initial training, leadership, and or technology and infrastructure. Although most countries do not have the financial abilities to train, equip, and provide infrastructure similar to the U.S., small improvements in training, tactics, and procedures can greatly influence one's ability to be more effective.

Lastly, the Office of Field Operations needs to engage the CBP Office of Trade to continue and expand their international operations and advisement. Enforcement is only half of the CBP mission, the other half is the facilitation of trade and travel. CBP personnel need to engage individuals in transit to the U.S., container security initiatives, and trade procedures. The U.S., if needed, could lock the border down so no one could enter or depart. This idea, however, is not conducive to the American way of life both for personal travel and for the goods the U.S. imports and exports. There needs to be a balance between travel and trade and enforcement and interdiction.

Conclusion

This paper has outlined the events that led to the formation of the Department of Homeland Security and U.S. Customs and Border Protection, the damage that transnational criminal organizations can do to U.S. national interests and security, how CBP's expanding footprint is assisting with the security of the homeland, the challenges and counter-argument to CBP's expansion, and finally recommendations for expansion of overseas operations to further the efficiency and effectiveness on the CBP mission. Both sides of the original thesis question: Bigfoot or big mistake: Is CBP's expanding footprint helping or hurting homeland security? have been addressed. CBP International Affairs is only a small part of DHS and an even smaller part of the giant U.S. government. However small of a portion of the government it is, CBP International Affairs plays a major role in the whole of government approach to securing the U.S.'s national interests and security. It is vital to national security that CBP continue to be deployed and engaged overseas.

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VITA

Mr. Christopher M. Seiler, (DHS/CBP) is the Patrol Agent in Charge serving in the U.S. Border Patrol. He began his career in 2001 in San Diego Sector. In 2005 he became a member of the Border Patrol Tactical Unit (BORTAC) and served on numerous overseas assignments, including Iraq. In 2008 he was promoted to Supervisory Border Patrol Agent in Imperial Beach, CA. He became an Assistant Attaché in Kabul, Afghanistan for CBP International Affairs from 2011-2013. Following his service as an attaché he was promoted to Operations Officer at the U.S. Border Patrol Headquarters in Washington, D.C., where he was later promoted to Assistant Chief in 2013. His most recent command is the Patrol Agent in Charge of the Special Operations Detachment in McAllen, TX. Mr. Seiler has a B.S. in Criminal Justice and a Master's Certificate in Advance International Affairs.

From: (b)(6);(b)(7)(C) [REDACTED]
[REDACTED]
To: FRIEL, MICHAEL J (b)(6);(b)(7)(C) [REDACTED]
[REDACTED]
Cc: (b)(6);(b)(7)(C) [REDACTED]
[REDACTED]
Bcc:
Subject: RON NIXON INTERVIEW WITH (b)(6);(b)(7)(C) [REDACTED] ON SGI
Date: Mon Nov 20 2017 23:38:55 EST
Attachments: SGI-Kenya Overview.docx
Thesis.pdf

Good evening,

I wanted to share the content/context of today's successful background interview on the Security Governance Initiative in Kenya between Ron Nixon of the NY Times and CBP Attaché (b)(6);(b)(7)(C) [REDACTED]. The information shared with the reporter will be used to educate his story on DHS' global reach in defense of the U.S. borders. Information used in the article (beyond educating the reporter) will be attributable to a 'CBP official'.

This is a long-term piece so the publication date is not expected until late December - or later as he's continuing his research by speaking to HSI in South Africa, flying on a P-3 mission supporting JIATF South, before speaking with CBP Acting Commissioner McAleenan in mid-December. He's already spoken with AS1 Duke and other DHS officials. This story/project was approved by the DHS Ass't Secretary for Public Affairs, (b)(6);(b)(7)(C) [REDACTED].

The backgrounder took place at The Tribe Hotel at 11 a.m. local facilitated by PAO (b)(6);(b)(7)(C) [REDACTED] of CBP OPA with (b)(6);(b)(7)(C) [REDACTED] as the subject matter expert. The backgrounder lasted nearly 90 minutes and topics covered included the current Security Governance Initiative in Kenya and how it's being implemented in country and the benefits to both Kenya and U.S.. (b)(6);(b)(7)(C) [REDACTED] provided background on his day-to-day engagements and types of assistance being provided - primarily training along with assistance with reporting across agencies and how to facilitate that in a more timely fashion. He discussed the various agencies with whom DHS/CBP interacts and what region(s) for which he is responsible as attaché.

The reporter asked directly 'what benefit does the U.S. garner in assisting Kenya?' (b)(6); (b)(7) responded that by enhancing border security in Kenya, we enhance the security of the U.S. border since when Kenya identifies risks, threats, and vulnerabilities, the U.S. shares in that enhanced security since those RTVs could also be used to target the U.S. but this allows the U.S. to mitigate those RTVs at the point of origin.

There were myriad clarification questions such as how CBP is represented on the African continent and how does CBP accomplish the training, etc.

(b)(6); (b)(7) then provided Ron the names of people he can speak to in Kenya for their take on the initiative.

Due to the situation in Zimbabwe, Ron Nixon had to cut this visit to Kenya short and is departing on Tuesday, November 21 to cover that situation.

To remind those who may not have seen the initial request, Mr. Nixon's inspiration came from a master's thesis written in June of this year by PAIC Christopher Seiler at National Defense University entitled: BIGFOOT OR BIG MISTAKE: IS CBP'S EXPANDING FOOTPRINT HELPING OR HURTHING HOMELAND SECURITY.

Prior to travelling, Mr. Nixon was given background on SGI and our engagement with the Government of Kenya by (b)(6);(b)(7)(C) and (b)(6);(b)(7)(C) of CBP International Affairs. Ron Nixon was also a participant on the public affairs' media panel when the GOK representatives were in Woodbridge, VA for communication training/assistance - so he was already familiar with that management pillar of this initiative.

My assessment is that this was an extremely productive background interview and the story will be far better informed. Ron Nixon was extremely grateful to (b)(6);(b)(7)(C) for taking the time to speak with him especially given that the election of President Kenyatta was upheld by the Kenya Supreme Court only a half-an-hour earlier.

If you have any questions, please feel free to reach out to me.

(b)(6);(b)(7)(C)
Director, Media Division
Office of Public Affairs
U.S. Customs and Border Protection

Desk: (b)(6);(b)(7)(C)

U.S. Customs and Border Protection Security Governance Initiative (SGI)-Kenya Overview

End state:

Assist the Government of Kenya (GOK) in developing the processes, procedures, and systems for a coordinated border management structure. CBP is supporting the GOK's development and implementation of a Kenya Border Management Strategy.

U.S. Customs and Border Protection (CBP) is focusing on four pillars of engagement that are viewed as essential elements of a coordinated border management structure. The four pillars are:

1. Statutory and Legal Framework Development
2. Public Affairs-Internal and External Communications Strategy and Implementation Plan Development
3. Strategic Planning (Joint Strategy Development Processes)
4. Information Sharing Architecture Development

Pillar Alignment to the SGI U.S.-Kenya Joint Country Action Plan (JCAP):

The following chart outlines how each JCAP objective and sub-objectives align to a border management pillar and fulfills the JCAP objective and recommendations. The only pillar that does not correlate directly to a JCAP objective is the Public Affairs pillar. However, it is a critical component of a coordinated border management structure.

JCAP Objective	Pillar
<p>Develop and implement the Kenya Border Management Strategy. This strategy should include the following elements:</p> <ul style="list-style-type: none"> The overall strategic vision for border management. Identification of the lead agency that will have the authority to provide command and control for an integrated border management system. Identification of the supporting agencies for border management. Roles and responsibilities for each agency involved in border management. General identification of resources to include budgetary, human and material. Legal and statutory bases for border management. 	<p>Pillar #1: Statutory and Legal Framework Development</p> <p>Develop and implement the Kenya Border Management Strategy.</p> <ul style="list-style-type: none"> ○ Legal and statutory bases for border management. ○ Roles and responsibilities for each agency. ○ Identification of the supporting agencies for border management ○ Directives on creating Standard Operating Procedures (SOPs). <p>Pillar #3: Strategic Planning</p> <p>Develop and implement the Kenya Border Management Strategy.</p> <ul style="list-style-type: none"> ○ Roles and responsibilities for each agency. ○ Identification of the supporting agencies for border management

	<ul style="list-style-type: none"> ○ The overall strategic vision for border management. ○ Directives on creating Standard Operating Procedures (SOPs). ○ Identify measures for capacity building
Develop key border security infrastructure for land, air, maritime and rail.	<p>Pillar #4: Information-sharing Architecture Development</p> <p>CBP considers information sharing/coordination among border management agencies a critical system that enhances border security at ports of entry (land, air, maritime, and rail). Information-sharing is focused on enhancing the flow of information between agencies at a port of entry, between ports of entry, between port of entry and headquarters, and between the Government of Kenya (GOK) and the U.S. government. In addition, the Automated Targeting System-Global is classified as “hard infrastructure” that will help to build a more coordinated information-sharing system at GOK ports of entry.</p>

CBP’s approach to engagements under SGI:

All of CBP’s programs (concepts, planning, and implementation) have required and will continue to require heavy participation and consultation by the GOK. The majority of ideas for programs occur during the study visits. Due to the organic nature in program development (based on conversations, interest, and expressed need from GOK counterparts during study visits), all of CBP’s programs are specifically tailored for the GOK. Activities such as the International Strategic Operational Planning Workshop in August 2015, the Implementation Plan Development Workshop in March 2016, the Public Affairs and Legal Authorities Workshops in August and September 2016, and the Layered Approach Concept Engagement in January 2017 were all customized programs that expand on relevant topics that support the four pillars, deepen understanding about coordination and integration, and transfer knowledge on CBP’s lessons learned and best practices in the 15 years that CBP was created. Through SGI, CBP provides tailored programs and activities that address the specific issues surrounding the creation of an integrated border management structure to assist the GOK in creating a more coordinated, and eventually unified border management institution in Kenya.

CBP will continue to work with counterparts in the Border Management Secretariat (BMS) to tee up key decisions for coordinated border management to the Border Control and Operations Coordination Committee (BCOCC). CBP assumes that the BMS is the primary entity to work with on border management in order to advance the policies, processes, and procedures for

coordination that would support long-term institutional change. The primary goal is to transfer knowledge on the important concepts and ideas concerning coordination and to see a sustainable coordinated border management structure (with supporting processes and procedures) in Kenya.

Pillar Alignment to CBP engagement objectives:

CBP's engagements are aimed at building the GOK's capacity in developing a coordinated border management structure. The following chart organizes each pillar with their associated objectives.

Pillar	Objectives
Pillar #1: Statutory and Legal Framework Development	<p>Assist chief counsel working group in developing the statutory framework to implement coordinated border management policies</p> <p>Provide the legal backing for policies that support coordination among GOK border management agencies.</p> <p>Assist the GOK in drafting legal frameworks and other legal instruments to make coordination legally binding among GOK border management agencies.</p> <p>Assist the GOK in developing a process to sensitize employees the legal statutes and frameworks that facilitate coordination among border management agencies.</p>
Pillar #2: Public Affairs-Internal and External Communications Strategy Development	<p>Assist public affairs working group in developing <i>internal</i> and <i>external</i> communications strategies and corresponding implementation plans so that the GOK's border management concept is communicated to border management agencies, the media, and to the Kenyan people</p> <p>Internal Communications Strategy and Implementation Plan Development – work with public affairs working group to develop an internal communications strategy and implementation plan. Internal communications focuses on</p> <ol style="list-style-type: none"> 1. introducing the idea and developing awareness <i>within</i> border management agencies about the GOK's coordinated border management concept; 2. communicating the imminent changes surrounding a new, coordinated border management structure to employees, level managers, port managers, and senior-level officials <i>within</i> border management agencies; and 3. establishing SOPs to disseminate information in a more coordinated way to relevant border management agencies <p>External Communications Strategy and Implementation Plan Development – work with public affairs working group and Kenyan media professionals to develop external communication strategy and corresponding implementation plan. External</p>

	<p>communications focuses on:</p> <ol style="list-style-type: none"> 1. assisting the GOK's border management agencies in developing mutually agreed upon talking points and concepts, branding terminology, awareness campaigns, a press releases to communicate the concept of coordinate border management to the media and the public; 2. establishing SOPs to disseminate information in a more coordinated way (one voice concept) to media outlets and public; 3. assist in building the capacity of the GOK spokesperson's office to address border management issues and work with the BMS spokesperson to coordinate border management messaging; and 4. in partnership with PACT and DDG, work with stakeholders in border communities in developing mutually agreed upon stakeholder appropriate talking points and the best way to communicate messages about border management to the public.
Pillar #3: Strategic Planning	<p>Support the development of processes and procedures that facilitate joint strategic planning and development</p> <p>GOK border management agencies are taught one process of strategic planning (i.e. U.S. Department of Homeland Security (DHS) Planners Course)</p> <p>Develop a cadre of border management professionals among GOK border agencies who can plan with counterparts in different agencies</p> <p>Develop the critical documents (Border Management Strategy Implementation Plan, and Campaign Plan(s)) needed to frame and implement the concept of coordination in Kenya</p> <p>Develop the processes and procedures for periodic review and updating of strategic documents, including assessments and review</p>
Pillar #4: Information-sharing Architecture Development	<p>Assist the GOK in improving their information-sharing systems.</p> <p>Develop the standard operating processes and policies needed to enhance information sharing among ports of entry and between ports of entry and headquarters.</p> <p>Develop a sustainable, functioning information-sharing system that promotes targeting and risk management principles and a proactive border management approach.</p> <p>Increase information sharing between the GOK and the U.S. government.</p>

The GOK is creating a coordinated border management structure to address their border security issues. Using DHS and CBP as one model, the GOK is interested in learning how different

agencies with their legacy policies, authorities, budgets, resources, and processes were used to create a new agency. To that end, the GOK seeks CBP's expertise to explain the challenges, discuss best practices and lessons learned, and advise on better information sharing and coordination practices. CBP's engagements are focused on supporting the GOK in their endeavor to coordinate their border management agencies in order to safeguard their borders from terrorism, transnational criminals, and illegal goods.

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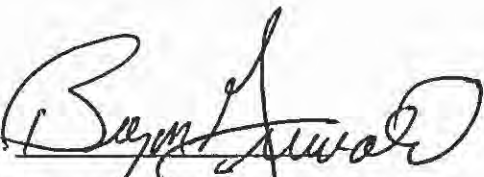
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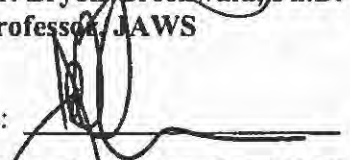
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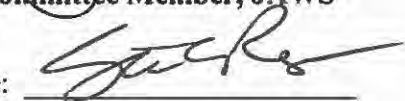
31 March 2017

Thesis Advisor:

Signature: 
Dr. Bryon Greenwald, Ph.D.
Professor, JAWS

Approved by:

Signature: 
James D. Golden, Col. USAF
Committee Member, JAWS

Signature: 
Stephen C. Rogers, COL, USA
Director, JAWS

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ABSTRACT

Bad actors and transnational criminal organizations have the ability to move illegal goods, drugs, dangerous materials, and people of interest to the “zero yard line” of the United States. Without a buffer to protect the homeland, limited people, time, and resources exist to identify harmful items and individuals before they enter the U. S. and cause damage. The U. S. has relied on a geographical buffer and a positive relationship with Mexico and Canada in order to maintain our current security. Customs and Border Protection (CBP) has expanded their division of International Affairs to build host country capacity, pre-clearance measures, and increased screening in foreign countries before arriving on the zero line. When it comes to securing the nation from those who would do it harm, CBP’s global footprint is an efficient and effective strategy not only to keep malevolent actors off the “zero yard line,” but out of the “red zone” altogether. However, as with all deployments, these actions incur a fiscal and, unfortunately, human cost as some agents are killed in IED and Blue on Green attacks, leaving some to ask: are such forward deployments worth their cost? Are they the most effective way to secure the U.S.?

DEDICATION

I would like to thank my Thesis advisors, Dr. Bryon Greenwald and Col. Doug Golden, USAF, for their continued assistance and guidance in this academic endeavor. Second, I want to thank my Seminar Two instructors, Col. Kevin Therrian, Professor Dave Rodermill, and Professor Mary Bell for their knowledge, humor, and dedication to making our seminar a success. Lastly, my Seminar Two classmates who have made the academic rigors of JAWS, behind the scenes learning, and off time a lifelong, enjoyable experience.

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INTRODUCTION

Contrary to common perception, the U.S. Customs and Border Protection (CBP) does not just operate border control points and port of entry clearance areas. CBP personnel are deployed globally expanding the boundaries of security and training others to help keep America safe. For example, in 2005, in Asuncion, the capital city of Paraguay, a U.S. Border Patrol Agent spoke to Paraguayan Customs, Navy personnel, and multiple media outlets about Paraguay's importance in the Western Hemisphere's security. Known as the Heart of South America, Paraguay is part of the infamous Tri-Border Region, an area of South America notorious as a cross-roads for terrorists and transnational criminal organizations (TCOs). This stands as a clear example of CBP's strategy to accomplish its mission globally.

Similarly, in support of USCENTCOM, CBP agents deployed with servicemen to Iraq and Afghanistan to assist those nations in providing for their border security while simultaneously enhancing security at home by thwarting the movement of drugs, terrorists, dangerous materials, and human trafficking through those countries. As with all deployments, these actions incurred a fiscal and, unfortunately, human cost as some agents were killed in IED and Blue on Green attacks, leaving some to ask: are such forward deployments worth their cost? Are they the most effective way to secure the U.S.?

Due to the elevated security risk to the United States, U.S. Customs and Border Protection (CBP) is expanding its global footprint overseas to increase the level of security of the homeland, reduce transnational crime, and facilitate trade and travel. This will be accomplished through foreign nation capacity building, pre-clearance measures, and increased screening. This analysis of historical events, current methods, and future threats validates CBP's international mission and recommends additional action to increase U.S. security. When it comes to securing

the nation from those who would do it harm, CBP's global footprint is an efficient and effective strategy not only to keep malevolent actors off the "zero yard line," but out of the "red zone" altogether.

CHAPTER 1

Origins of DHS, CBP, and Expanding Footprint

Borders are heaven, they are nirvana for traffickers and for the illicit networks in which they function.¹

*Michael Miklaucic
Director, Center for Complex Operations*

The morning was just like every other morning; people took their kids to work, others were on their way for their morning coffee, and the United States lived in an isolationist bubble. A new, soon to be appointed, government employee reported for his second day in Washington, DC. Robert C. Bonner had reported for duty, but had yet to be confirmed by the U.S. Senate as the Commissioner for the U.S. Customs. At that time, U.S. Customs resided under the Treasury Department. Commissioner Bonner and the lives of everyone else in the country were about to change indefinitely. At 9:35 am, hijackers flew two commercial airplanes into the World Trade Center in New York City, one into the Pentagon in Northern Virginia, and a fourth planned to fly into the U.S. Capitol. This act of foreign grown terrorism on U.S. soil had horrific effects on the nation with 2,933 innocent lives taken. A number of changes were to come that would reverberate through the rest of U.S. history, including the invasion of Afghanistan and Iraq, the creation of the Department of Homeland Security (DHS), a change in the way the U.S. combatted terrorism, and the loss of a nation's innocence.

Immediately after the attacks, Commissioner Bonner knew that a change in the mission of U.S. Customs Service was essential to the survival of the U.S. Bonner made the dramatic change in the priority mission of Customs from interdiction of drugs and regulation of trade to

¹ Michael Miklaucic and Moises Naim, "The Criminal State," in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 149.

preventing terrorists and terrorist weapons from getting into the United States. This led to a number of changes that will be discussed later in the paper, but the first step was to refocus the agency and personnel as a whole. Commissioner Bonner began his third day with an all hands meeting of U.S. Customs employees worldwide. He emphasized the importance of the attacks and how the priority mission had changed to preventing terrorist and terrorist weapons from entering the United States.² The U.S. had been lulled into a false sense of security by the illusion that the vast oceans that surround the country and its relationship with peaceful neighbors would protect the nation. This idea of containment and mutual deterrence against this type of enemy was obviously not effective; a change had to be made. The United States, under President George Bush, took a three-pronged approach both to fighting the terrorist threat against the U.S. and global terrorism in general. First, the U.S. would go on the offensive and go after the terrorists, their leaders, and the countries that harbor them. Second, the U.S. would have a strong, coordinated defense of the homeland, which led to the formation of the new Department of Homeland Security. Lastly, the U.S. would begin an aggressive information operation campaign to undermine the jihadi message.

Since its founding in 1789, the U.S. Customs Service has guarded the U.S. ports of entry and collected tariffs on goods coming into the United States. In 1924, the U.S. Border Patrol was created primarily to stop illegal entries along the U.S.-Mexico and Canadian International Borders.³ Each agency held a similar mission of protecting the nation's borders, but were under different parent agencies. After the tragedy of September 11, 2001, Congress created the Department of Homeland Security, and both agencies merged to form U. S. Customs and Border

² Robert C. Bonner, "Securing the transnational movement of trade and people in the era of global terrorism." *Strategic Insights*, June 2006, 2-4.

³ U.S. Customs and Border Protection. "About CBP."

Protection (CBP). It is now the mission of CBP “to safeguard America's borders thereby protecting the public from dangerous people and materials while enhancing the Nation's global economic competitiveness by enabling legitimate trade and travel.”⁴ It is now understood by the U.S. government and its citizens that the U.S. must “take the fight” to the people who are attempting to do the U.S. harm. Although on a smaller scale, CBP has a direct parallel to the Department of Defense and the “War on Terror” in order to prevent attacks on the homeland. CBP is expanding into foreign countries to be more effective and keep the bad actors away from U.S. soil.

In order to fulfill the requirements of President Bush’s three-pronged strategy, an aggressive reorganization of the defense of the homeland took place. The formation of the Department of Homeland Security was the largest reorganization of the federal government since 1947. The Homeland Security Act of 2002 (P.L. 107-296) created a framework for the transfer of all or part of 22 different federal agencies into the newly formed Department of Homeland Security (DHS). This included the U.S. Customs Service, U.S. Border Patrol, and U.S. Coast Guard. Title IV of the Act created the Directorate of Homeland Security headed by the Under Secretary for Border and Transportation Security.⁵ The Directorate was tasked with three responsibilities:

- Prevent the entry of terrorists and the instruments of terrorism into the U. S.;
- Ensure the speedy, orderly, and efficient flow of lawful traffic and commerce and;
- Establish the U.S. Customs Service and the office of Customs within DHS.

⁴U.S. Customs and Border Protection, *Vision and Strategy 2020*, (Washington DC: Government Printing Office, 2014), 7.

⁵ Sec. 401 of P.L. 107-296; 6 U.S.C. 70114

The Homeland Security Act directed the President to reorganize the agencies under DHS no later than 60 days from the enactment. This moved personnel, assets, and obligations from the 22 affected agencies into DHS (See Figure 1). Part of this reorganization was the formation of a “One Border Agency” idea, which became U. S. Customs and Border Protection (CBP). In addition, the U.S. Customs Service was renamed the Bureau of Customs and Border Protection (CBP) and was to include the Office of Field Operations (OFO), U.S. Border Patrol (USBP), and later the Office of Air and Marine (OAM).⁶

The Homeland Security Act accomplished a number of goals. First, it abolished a broken Immigration and Naturalization Service (INS), which had issued visas to several of the 9/11 terrorist hijackers six months after the attacks on America. The duties of the INS were divided and streamlined among the new DHS agencies to prevent further mistakes. Second, it combined the personnel from the United States Border Patrol, previously under the Department of Justice, with the U.S. Customs Service and the border inspectors of the U.S. Department of Agriculture under the new CBP banner.⁷ This allowed for one single agency to manage, control, and secure the nation’s borders to include all the official ports of entry and the area between these ports for

⁶ On the establishment of the Department of Homeland Security, see archived CRS Report RL 31549, *Department of Homeland Security: Consolidation of Border and Transportation Security Agencies*, by Jennifer E. Lake; and archived CRS Report RL31493, *Homeland Security: Department Organization And Management—Legislative Phase*, by Harold C. Relyea.

⁷ U.S. Congress, House, Committee on Homeland Security, Reorganization Plan Modification for the Department of Homeland Security, Communication from the President of the United States, House Document 108-32, 108th Cong., 1st sess., February 3, 2003.

the purposes of preventing terrorist and terrorist weapons (bio and agro terrorism included) from entering the country, while promoting legitimate trade and travel.

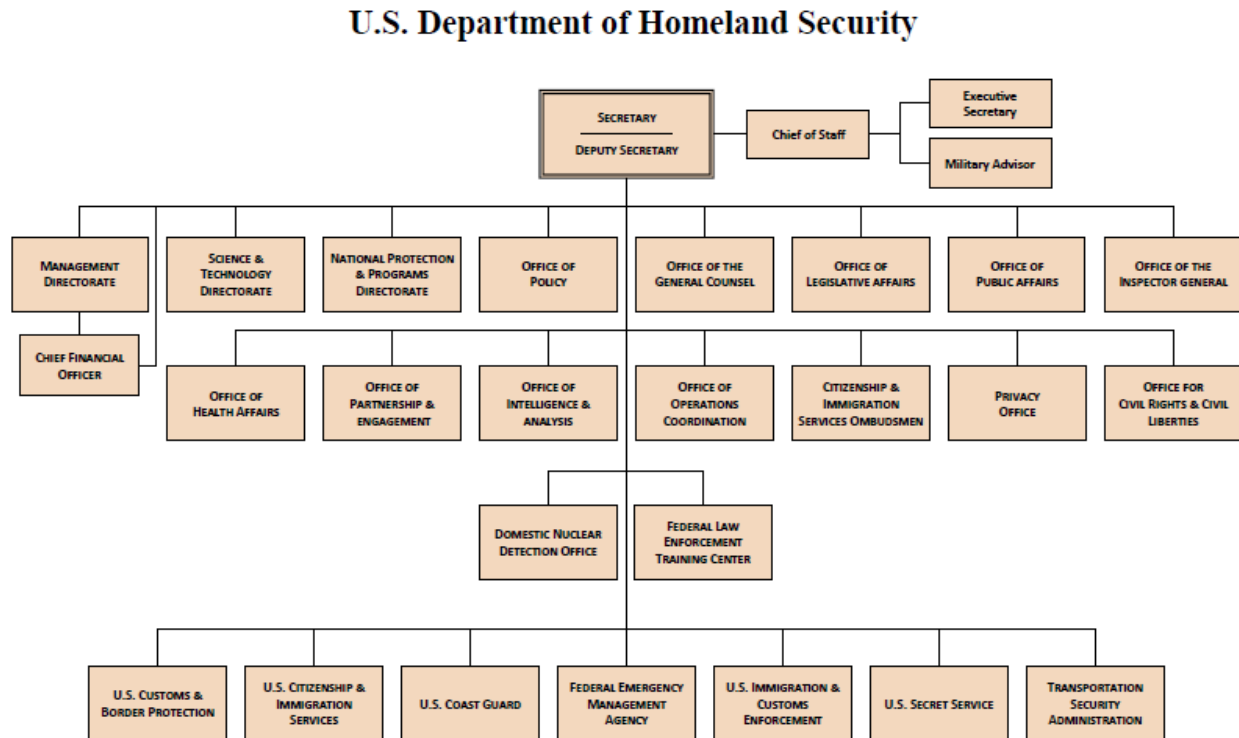


FIGURE 1. U.S. Department of Homeland Security⁸

On an average day, CBP welcomes to the United States on average one million travelers and visitors via land, air, and sea ports of entry (POE's).⁹ As the threats against the U.S. have increased over the last two decades, CBP has had to increase the buffer around the nation and not view the nation's borders as the only line of defense. A new approach being taken in concert with the nation's international partners is to create a multi-layered, intelligence driven strategy. This new strategy encompasses every aspect of CBP's mission and capabilities to ensure safe

⁸ U.S. Department of Homeland Security. "About DHS."

https://www.dhs.gov/sites/default/files/publications/Department%20Org%20Chart_1.pdf

⁹ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled 'The Outer Ring of Border Security: DHS's International Security Programs. *States News Service*, 2015. *Biography in Context*.

travel for airline passengers from the time a passenger books or purchases a ticket, to inspecting travel documents, at the airport, while in route, and upon arrival in the U.S. POE's or equivalent.

After the events of 9/11, the United States can no longer remain at home; it must go on the offensive and take the fight to the terrorists who attacked the country. The question is, "What is the best way to do this?" A number of theories developed on how best to keep the homeland secure, one technique was through deterrence operations. Deterrence operations convince the adversaries not to take actions that threaten U.S. vital interests by means of decisive influence over their decision making. This influence is achieved by credibly threatening to deny benefits and/or imposing cost, while encouraging restraint by convincing the actor that restraint will result in acceptable outcomes.¹⁰

Customs and Border Protection's capabilities in forward stationed and forward deployed areas enhance deterrence by improving the ability to act in the host nation country, as opposed to being on the zero-line. This forward presence strengthens the role of partners and expands joint and multi-national capabilities. CBP presence conveys a credible message that the U.S. will remain committed to preventing conflict and demonstrates commitment to the defense of the U.S. and strategic partners. This demonstration of U.S. political will and resolve shows that there is opposition to adversary aggression and coercion in the regions that are important to U.S. formal alliances and security relationships.¹¹ These critical relationships are determined by U.S. National Interests and the strategic areas in which CBP can provide the most impact against combatting transnational criminal organizations.

¹⁰ Deterrence Operations, *Joint Operating Concept, Version 2.0* December 2006, 26-28.

¹¹ *Ibid.*, 33.

Chapter 2

Transnational Criminal Organizations: An Evolving Threat

Just as legitimate governments and businesses have embraced advances of globalization, so too have illicit traffickers harnessed the benefits of globalization to press forward their illicit activities.

Admiral James Stavridis

Over the past decade, U.S. officials have learned that one of the biggest threats to national and international security is the development and expansion of Transnational Organized Crime (TCO). As defined by the July 2011 Strategy to Combat Transnational Organized Crime, the term, transnational organized crime, more accurately describes the emerging threat America faces today. As emphasized by the National Security Strategy, "...These threats cross borders and undermine the stability of nations, subverting government institutions through corruption and harming citizens worldwide."¹² The goal of the July 2011 Strategy to Combat Transnational Organized Crime is to reduce transnational organized crime from a national security threat to a manageable public safety problem in the U.S. and in strategic regions around the world. This will be accomplished by achieving five key policy objectives:

- 1) Protect American and our partners from the harm, violence, and exploitation of transnational criminal networks.
- 2) Help partner countries strengthen governance and transparency, break the corruptive power of transnational criminal networks, and sever state-crime alliances.
- 3) Break the economic power of transnational criminal networks and protect strategic markets and the U.S. financial system from TOC penetration and abuse.

¹ U.S. President, *Strategy to Combat Transnational Organized Crime: Addressing Converging Threats to National Security* (Washington DC: Government Printing Office, July 2011), 2-5.

- 4) Defeat transnational criminal networks that pose the greatest threat to national security by targeting their infrastructures, depriving networks of the means which enable them, and preventing the criminal facilitations of terrorist activities.
- 5) Build international consensus, multilateral cooperation, and public-private partnerships to defeat transnational organized crime.²

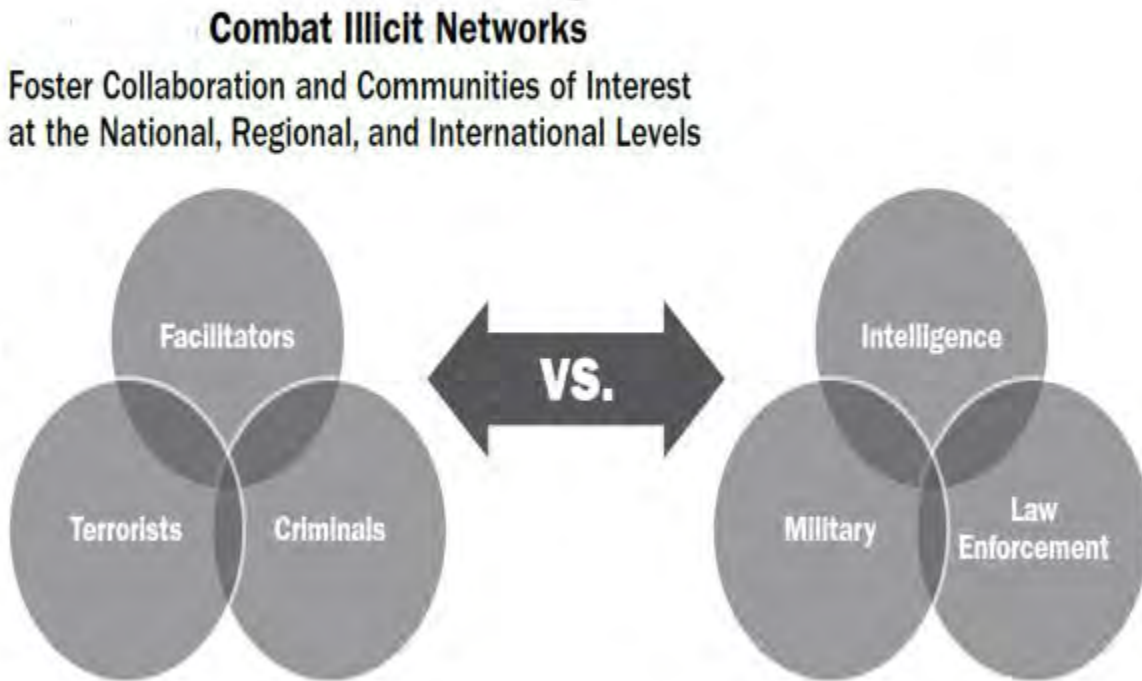


FIGURE 3.

3

Bad actors and transnational criminal organizations have the ability to move illegal goods, drugs, dangerous materials, and people of interest to the “zero yard line” of the United States. Without a buffer to protect the homeland there are limited people, time, and resources to identify harmful items and individuals before they enter the U. S. and cause damage. The U. S. has relied on a geographical buffer and a positive relationship with Mexico and Canada in order to

² Ibid.

³ Celina B. Realuyo, “Collaborating to Combat Illicit Networks Through Interagency and International Efforts,” in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 263.

maintain its current security. The attacks on 9/11 proved that the buffer that had protected the U.S. has disappeared. Accordingly, CBP has expanded its division of International Affairs to build host country capacity, establish pre-clearance measures, and increase screening in foreign countries before arriving on the zero line.

CBP's expansion into a number of foreign countries is a bold and potentially dangerous move that could have negative repercussions. There are three major concerns with this expansion:

- 1) Cost. Is it fiscally responsible to have personnel detailed long term or permanently moved to these countries, along with the high cost of training for the employees and host nation personnel? Is it worth human lives and human capital to be deployed overseas as opposed to in the homeland?
- 2) Culturally. Does it have a negative impact on the host nation country and build negative stereotypes of Americans?
- 3) Operational Effectiveness. Does it detract from the mission at home and what is the effectiveness in the U. S. and overseas?

An extensive review of current literature relating to terrorism, transnational crime, and threats to U.S. trade and travel suggests that the expanding footprint is effective in protecting the homeland. These actions have had positive and negative effects on XX, but as interviews with CBP personnel and an in depth analysis of data shows the net effect is to increase America's security.⁴

Fifteen years after 9/11, it is still evident that the fight is not over, but America is making progress as noted in the alignment of missions between the National Security Strategy, the Department of Defense, and CBP. In his 2015 National Security Strategy President Obama

⁴ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015. *Biography in Context*.

wrote that, “our obligations do not end at our borders,” that the U. S. must “uphold our commitment to allies and partners,” and that “fulfilling our responsibilities depends on a strong defense and secure homeland.”⁵ President Obama’s message was previously laid out in the Quadrennial Defense Review 2014 for the priorities of the Department of Defense illustrating its importance. The Department’s strategy empathized three pillars:

- Protect the homeland, to deter and defeat attacks on the United States and to mitigate the effects of potential attacks and natural disasters.
- Build security globally, preserve regional stability, deter adversaries, support allies and partners, and cooperate with others to address common security challenges.
- Project power and win decisively to defeat aggression, disrupt and destroy terrorist networks, and provide humanitarian assistance and disaster relief.⁶

The three pillars of the Department of Defense (DOD) compliment the mission of Customs and Border Protection (CBP) and work in concert for a whole of government approach to protect U.S. national interests and security.

After the creation of DHS and the reorganization of CBP, the next step was to go on the offensive and extend the U.S. zone of security to interdict and deter threats on foreign soil as far away from the homeland as possible and to not allow the U.S. border to be the zero yard line. This was accomplished through expanding the global footprint and improving three critical areas: 1) Enforcement, 2) System and technology upgrades, and 3) Training. All of this needed to take place on foreign soil with the assistance and agreement of the host nation.⁷

⁵ U.S. President, national Security Strategy (Washington DC: Government Printing Office, February 2015), 8.

⁶ Quadrennial Defense Review, (Washington DC: Government Printing Office, May 2014), 4.

⁷ Robert Bonner. "Securing the transnational movement of trade and people in the era of global terrorism." *Strategic Insights Series*, June 2006, 18-19.

CHAPTER 3

CBP's Expanded Footprint and How to Protect the Homeland

To extend the zone of security away from the homeland, CBP implemented a new risk based layered approach. This new strategy employed innovative pre-departure security efforts before people or products departed their foreign ports. One of the key supporting capabilities is the National Targeting Center (NTC), which receives advanced passenger information identifying potential risks at the earliest time possible. CBP then works in concert with the host nations including those in Europe, North Africa, and the Middle East to provide greater situational awareness for host countries. The information provided and generated by the NTC can be utilized by CBP's overseas enforcement programs, Pre-clearance Immigration Advisory, and Joint Security Programs and Regional Carrier Liaison Groups to combat threats before they occur (these programs will be addressed in more detail later). The NTC, utilizing a whole of government approach, works closely with their parent agency, DHS and components, the Department of State, Department of Defense, and the Intelligence community to leverage all the assets, jurisdictions, and authorities to identify and address these security threats.¹

Although CBP's expansion has been successful, there have been some friction points that are continually being reworked. In December 2001, DHS Secretary Tom Ridge and Canadian Deputy Prime Minister John Manley signed the "Smart Border" Declaration and associated 30-point action plan to enhance the security of our shared border while facilitating the legitimate flow of people and goods. Some of the associated 30 point actions items included clearance away

¹ U.S. Congress. Written Testimony of CBP Office of Field Operations Deputy Assistant John Wagner for House Committee on Homeland Security, Subcommittee on Border and Maritime Security Hearing Titled "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015. *Biography in Context*.

from the border, immigration officers overseas, and international cooperation. Since the implementation of the Bush Administration strategy of smart borders there has been resistance by some countries, especially in Europe.² The international community argued that the U.S. imposed new rules on their airlines, people, and countries. The use of biometric identifiers are viewed as an intrusion on Europeans' personal data. Another debate that arose was the extra cost to the private sector because of the newly implemented extensive controls on container security. A number of other challenges that have been identified, including legal challenges concerning extraterritorial laws, internal politics within strategic partners, and implementing processes in the private sector. The Transatlantic shift and cooperation with Europe needs to be more thoroughly developed for both to mutually benefit from a global homeland security network.³

Extending the Zone of Security/Targeting and Detecting Risk (Whole of Governments Approach)

CBP extended the zone of security for the homeland using a risk based, layered approach that pushes the U.S. border security efforts outward to detect, assess, and mitigate risks posed by travelers, materials, or other threats before they reach the borders of the U.S. The Pre-departure process integrates multiple levels of capabilities and programs that form an overlapping strategy along the travel cycle of passengers and cargo. This strategy ensures that threats are detected as early as possible, while assisting the host nation country by ensuring they are also kept safe.⁴

Working through the pre-departure process and throughout the international cycle, CBP is

² Gerhard Peters and John T. Woolley, "Summary of Smart Border Action Plan Status." *The American Presidency Project*, September 9, 2002. <http://www.presidency.ucsb.edu/ws/?pid=79762> Online by Gerhard Peters and John T. Woolley (accessed December 27, 2016).

³ Patryk Pawlak, "Transatlantic homeland security cooperation: the promise of new modes of governance in global affairs." *Journal of Transatlantic Studies* 8, no. 2 (Summer 2010): 139-157.

⁴ *Congressional Research Service, U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*, by the Congressional Research Service, March 2013 (Washington, DC: Government Printing Office, 2013), 28-40.

working with the host nation, foreign partners, and other U.S. government agencies. CBP works closely with the other components of the Department of Homeland Security (DHS), the Department of State (DOS), the Department of Defense (DOD), and the intelligence community to ensure that all assets and resources are leveraged and emerging threats are identified early. On a daily basis, CBP personnel from the National Targeting Center (NTC), work with our partners in Europe, North Africa, the Middle East, and those from the Five Eyes countries (U.S., United Kingdom, Australia, Canada, and New Zealand). Specifically, two major processes can be impacted through the extended zone of security: passenger measures and cargo measures. Both have different threats to the security of the homeland and will be broken down for a more close examination.

Passenger Measures

Passenger identification and travel security has always been a security risk/concern for customs agencies all over the world. The risk of hijackings in the 1980s and the use of a plane as a weapon on 9/11 illustrated how the system needed to be greatly improved. A number of new measures were implemented to make passenger travel more secure.

Visa and Travel Authorization Security

One of the first steps in legal, international travel is to obtain the proper documents to travel abroad. This means applying for a passport, visa, travel authorizations, and the proper boarding documents. Most foreign nationals must apply for a non-immigrant visa through a U.S. Embassy or Consulate. The burden of the visa application and adjudications process lies within the Department of State, however, CBP also conducts vetting of these visas. CBP does this through the National Targeting Center and continuously vets non-immigrant visas that have been

issued, revoked, or denied. If a traveler's status changes, this rechecking ensures the traveler will not be allowed to board the conveyance. This is accomplished through heightened screening efforts with U.S. Immigration and Customs Enforcement (ICE) and the Department of State (DOS). An enhanced, automated screening system continually monitors the traveler's life cycle through their travel process. This has revolutionized and streamlined the way the U.S. government can monitor foreign nationals looking to enter the U.S. This process is a precursor system and works in tandem with DOS Security Advisory Opinion (SAO) and Advisory Opinion (AO) programs. The collaboration of the three agencies ensures the broadest of jurisdictions, authorities, expertise, and technologies to examine every passenger a number of times and through their travel.⁵

Pre-Clearance Operations

Pre-Clearance operations are CBP's highest level of overseas ability to detect, prevent, and apprehend individuals on foreign soil prior to departure for the United States. Inspection and clearance of commercial passengers overseas ensures the U.S.'s extended border strategy. This is accomplished through uniformed CBP officers with legal authority to question and inspect travelers and luggage in foreign airports. The officers complete the same immigration, customs, and agricultural inspections of passengers at foreign airports as are performed at domestic ports of entry. Passengers that are found inadmissible at the gate are not allowed to board the aircraft and travel to the U.S. This also provides cost savings to the USG because the cost of returning the individual is no longer needed. In Fiscal Year 2014, this saved approximately \$50 million dollars and kept air travel safer.⁶ Passengers that do pass inspection abroad are not required to

⁵ "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015.

⁶ *Ibid.*

pass any other inspection requirements upon arriving at a U.S. airport. This decreases time and increases efficiency for travelers, carriers, and airports.

Pre-clearance operations are currently in Canada, Ireland, The Bahamas, Aruba, and the United Arab Emirates. In 2014, CBP officers pre-cleared 17.4 million travelers, which accounted for 21% of all commercial aircraft inbound to the U.S. from the participating countries. Most importantly, with the respect to terrorist threats from the Middle East, the UAE receives flights from Yemen, Morocco, Nigeria, Kenya, Ethiopia, Sudan, Saudi Arabia, Pakistan, Iraq, Lebanon, Bangladesh, and India enroute to the U.S. All of these countries are high-risk pathways for terrorist travel and terrorists from these countries seek to utilize the UAE to bypass other security measures for entry into the U.S. and Europe. CBP officers in pre-clearance country airports are enabled with technology, access to data bases, and granted full inspection authority with regard to travelers and baggage. If discovered to be questionable by CBP personnel and in need of additional screening, individuals can be further investigated by DHS's Homeland Security Investigations (HSI) or the Federal Bureau of Investigation (FBI) in the host country or once arriving in the U.S.

Immigration Advisory Program (IAP) and Joint Security Program (JSP)

Two additional levels of the layered approach to passenger security before boarding the plane include the Immigration Advisory Program (IAP) and the Joint Security Program (JSP). These programs use advanced information from the NTC to identify possible terrorists and high-risk passengers. CBP Officers are posted at major gateway airports in Western Europe, Asia, and the Middle East, including Amsterdam, Frankfurt, London, Madrid, Paris, Tokyo, Mexico City, Panama City, and Doha. The CBP Officers work with the host nation countries to identify passengers linked to terrorism, narcotics, weapons, and currency smuggling. Once an individual

is identified, officers issue a no-board recommendation to the commercial carriers, which prevents the improperly documented travelers from boarding flights destined for the U.S. One limit to the program is that the officers do not have the legal authority to require the air carrier not to allow the passenger on the flight. Therefore, cooperation between the host nation, the airline, and the CBP officers is a must for the program to succeed. The recommendations are generally accepted and followed by the airlines.

CBP Carrier Liaison Program (CLP)

All of the weight of secure air travel does not fall on CBP alone. The commercial airlines and CBP realize that the safety of their passengers is important to everyone and developed the Carrier Liaison Program (CLP). Specially trained CBP officers train commercial air carrier participants to identify, detect, and disrupt improperly documented passengers. This process can identify passengers in-flight for further inspection upon landing and have their fraudulent documents removed from circulation. Since the start of the program, CBP has provided training to more than 34,800 airline industry personnel. This program, along with host nation participation, exponentially increases the number of people watching for illegal activity and improves the security of the passengers and homeland.

The Pre-Departure

Pre-Departure Targeting starts well before the passenger arrives at an airport attempting to enter the U.S. When a traveler books a ticket to travel to the U.S. a Passenger Name Record (PNR) and Advance Passenger Information System (APIS) entry is generated in the airlines' reservations system. This information includes itineraries, co-travelers, changes to the reservation, and payment information. This information is then cross-referenced with criminal

history, records of lost or stolen passports, public health records, visa refusals, prior immigration violations intelligence reports, law-enforcement data bases, and the Terrorist Screening Database (TSDB). Pre-Departure Targeting can prohibit someone from boarding the plane. If permitted to travel, further investigation continues while in-flight in order to provide more inspection upon entry to the U.S.⁷

In addition, if fraudulent, counterfeit, or altered travel documents are discovered, the documents are removed from circulation and sent to CBP's Fraudulent Document Analysis Unit (FDAU). The FDAU is a central depository and analysis center for seized documents. The FDAU can provide intelligence, alerts to field operations, and up to date pertinent training for field units on current tactics, techniques, and procedure for fraudulent documents. These functions along with removing the fraudulent document and the detaining the traveler provide another layer of enforcement along with prevention of future misuse.

Arrival Processing and Trusted Travelers

CBP's layered approach not only provides additional layers of enforcement, but also identifies low-risk travelers to facilitate speedy travel. CBP's Global Entry Program provides for expedited processing upon arrival in the U.S. for pre-approved, low-risk participants. This is accomplished through the use of secure Global Entry kiosks that have machine-readable passports technology, a fingerprint scanner, along with a complete customs declaration. Once approved, the traveler is issued a transaction receipt and directed to the baggage claim and the exit. In order to be a member of the Global Entry Program a rigorous background check and in-person interview is conducted before enrollment. Any violation of the program's terms and

⁷ Ibid.

conditions results in termination of the traveler's privileges and appropriate enforcement measures.

Cargo Measures

The second element and equally dangerous to national security is the risk of dangerous goods and material coming into the country. Weapons of mass destruction coming into the country without being detected, human smuggling, and legitimate trade with customs not being documented or paid all present significant risk and potential cost to the U.S. The following portion of the paper will illustrate how CBP's expanded footprint mitigates and identifies these concerns.

Container Security Initiative (CSI)

The Container Security Initiative (CSI) is a collaboration between CBP, Immigrations and Customs Enforcement (ICE), and host nation law enforcement agencies in CSI countries. Advanced Cargo data and high-risk containers are identified by the Nation Targeting Center (NTC) in Virginia. The identified high-risk containers are tested for radiation by Non-Intrusive Inspection (NII) scanning in the foreign ports. CBP personnel located in the host nation ports along with the host nation law enforcement agencies evaluate the results. If the results are abnormal, the U.S. and host nation agents conduct a physical inspection of the container before it is loaded on a U.S. bound ship. The Container Security Initiative is currently operational in 58 ports in 30 countries around the world. This accounts for 80% of incoming cargo flowing into the U.S. Approximately 1% of the cargo passing through CSI-participating nations is scanned

using radiation detection technology and NII scanning before being loaded and shipped to the U.S.⁸

Non-Intrusive Inspection (NII) Technology is equipment that enables CBP to detect contraband and materials that pose potential nuclear and radiological threats. The technology includes large X-ray and Gamma-ray imaging systems, as well as portable and hand held devices. More specifically, this includes, Radiation Portal Monitors (RPM), Radiation Isotopes Identification Devices (RIID), and Personal Radiation Detectors (PRD).⁹

Upon initial viewing 1% may not appear very effective and may seem to put the homeland in danger; however, the SAFE Port Act requires that 100% of cargo containers passing through U.S. POEs be scanned for radioactive material prior to being released from port. This is accomplished through choke points where all cargo is scanned with drive-through portals at U.S. ports. The radiation detection portals only need a few seconds per container to be effective. If a monitor is triggered, further tests with other technology or physical inspection are conducted. After being identified, the cargo is either released or the radioactive material is removed and further investigation into the shipper is conducted.¹⁰

⁸ CBP Office of Congressional Affairs, August 23, 2012.

⁹ U.S. Customs and Border Protection, Fact Sheet, Non-Intrusive Inspection (NII) Technology.

¹⁰ *Congressional Research Service, U.S. Customs and Border Protection: Trade Facilitation, Enforcement, and Security*, by the Congressional Research Service, March 2013 (Washington, DC: Government Printing Office, 2013), 28-40. CBP Office of Congressional Affairs, August 23, 2012.

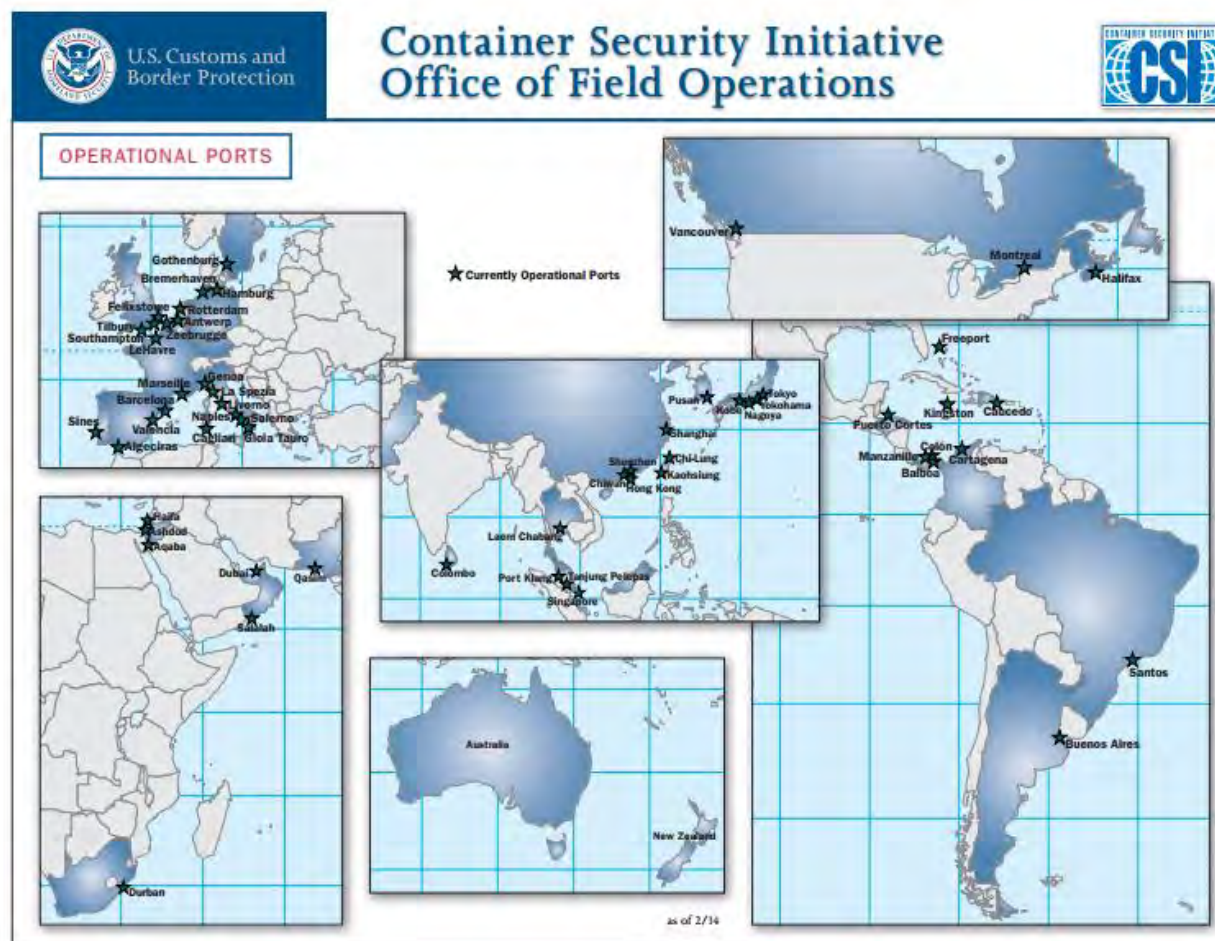


FIGURE 3.

11

Advise and Train

CBP Attachés

Custom and Border Protection has also included CBP Attachés and International advisors in multiple countries around the world to increase the layered approach and to assist our international partners in capacity building programs. Attachés are posted in U.S. embassies and consulates in foreign host nations and work closely with U.S. partners and with the host nation government entities. CBP personnel work closely with U.S. investigative and intelligence

¹¹ Ibid. U.S. Customs and Border Protection.

personnel and advise the U.S. Ambassador and agencies of CBP programs and capabilities. These attachés assist in bridging the gap between the U.S. government and host nation governments in the previous mentioned programs in which necessitate host nation cooperation. International advisors typically are embedded with U.S. Department of Defense (DOD), other U.S. government agencies, or with the host nation border agencies. The advisors serve as consultants and trainers on international migration issues, infrastructure modernization, contraband detection, and interdiction. These operational relationships with the interagency and international partnerships are vital to the overseas footprint and effectiveness for U.S. and host nation security.¹²

International Advisors

The U.S. military and government civilians are often tasked with providing stability operations to countries with which the U.S. has strategic relationships or that have asked for assistance. Local police play a unique role in the reconstruction of a democratic government. Foreign militaries can suppress violence and battle crime, but it is better left to law enforcement professionals. Local law enforcement can win the allegiance of the population on behalf of the local government and bring stability back to a region. The professional manner of the local police reflects the character and capacity of the government that is being reformed and reconstructed. Therefore, the police can provide crucial information when dealing with violent political factions and demonstrate to the local populace that the government is worth supporting.

¹² "The Outer Ring of Border Security: DHS's International Security Programs." *States News Service*, 2015.

Secondly, they provide security for the citizens of that country. If the local populace does not feel secure, education, employment, and economic development are in jeopardy.¹³

U.S. Customs and Border Protection agents are deployed to countries on six of the seven continents, excluding Antarctica, to provide training and technical advice to foreign host nations. The role of the adviser can range from advising General David Petraeus in Afghanistan on how best to secure the Afghanistan/Pakistan International border; to providing tracking skills to Federal Park Rangers in Kenya to combat poaching; to technical assistance on safeguarding containers with Non-Intrusive Inspection equipment in Spain. CBP personnel are deployed all over the world for differing reasons and deployment durations. However, they all offer a very valuable service to the host nation country, enable CBP to expand its ring of influence, and provide added security for the homeland.

¹³ David H. Bayley and Robert Perito, *The police in war: fighting insurgency, terrorism, and violent crime*. (Boulder: Lynne Rienner Publishers, 210), 150.

Chapter 4

Challenges

Any type of operation or overseas deployment has a cost-benefit analysis and naysayers who think that operation is too expensive or not effective enough for continued use. As briefly highlighted in Chapter Two, there are a number of counter arguments as to why CBP should not be deployed overseas and should remain in the homeland. Budgetary concerns, cultural issues, operational effectiveness, and complexity of the problem (as seen below) are the major issues that have been offered as to why CBP's footprint should not be expanded. Because the Department of Defense is a much larger organization and has more background with such issues, the parallels, as mentioned earlier in this paper, will be analyzed along with other references for a defensible counter argument.



FIGURE 4.

1

¹ Michael Miklaucic, and Moises Naim. "The Criminal State," in *Convergence: Illicit Networks and National Security in the Age of Globalization* (Washington, D.C.: National Defense University Press, 2013), 150-151.

Budget Constraints

As with any operation, agency, or department, one's budget is what drives the ability to complete the mission. In the last 15 years, the U.S. has been involved in two very costly wars in Afghanistan and Iraq costing roughly \$ 4.8 trillion. This figure includes: direct Congressional war appropriations; war related increases to the Pentagon base budget; veteran care and disability; increase in the homeland security budget; interest payments on direct war borrowing; foreign assistance spending; and estimated future obligations for veterans' care.² Although CBP's overall budget is only a fraction of that, it still affects the overall budget of the U.S. Government and contributes to the budget constraints on all departments and agencies. The budget of CBP in 1995 was \$1.4 billion. After the attacks of 9/11, by 2006, the budget had almost quadrupled to \$4.7 billion.³ For 2017, the proposed CBP budget is \$13.9 billion. This is a considerable increase in funding for manpower, technology, and infrastructure. Within that number are the numerous personnel and operating costs needed to train, house, and protect the agents that are stationed overseas.

On May 29, 2015, Department of Homeland Security (DHS) Secretary Jeh Johnson announced DHS's intention to enter into negotiations to expand air pre-clearance to ten new foreign airports, located in nine separate countries. In 2014, nearly 20 million passengers traveled from these ten international airport to the U.S. As discussed earlier, preclearance allows for the complete inspection of the individual before boarding the flight. More than 16 million individuals traveled through one of CBP's pre-clearance locations in Canada, Ireland, the

² Watson Institute for International and Public Affairs, "Costs of War," Brown University, <http://watson.brown.edu/costsofwar/figures/2016/us-budgetary-costs-wars-through-2016-479-trillion-and-counting> (accessed December 28, 2016).

³ Harold Kennedy, "Border Security," *National Defense*, Vol. 91, Issue 632, (July 2006): 47.

Caribbean, or the United Arab Emirates in FY 2015. CBP's goal by 2024 is to process 33 percent of the U.S. bound air travelers abroad, before they ever board an airplane. The Consolidated Appropriations Act of 2016 (Pub. L. No. 114-113) provided the up-front appropriations that CBP may use to cover costs of pre-clearance operations until reimbursements are collected. The intent of this program is for reimbursements to help fund the cost of the program. These reimbursement come from airport operators. As of FY 2017, CBP has not collected any of the reimbursements from foreign airports. This, of course, may change in the future, but with the perception of the deep pockets of the U.S. government, foreign airports have been reluctant to pay to have U.S. CBP agents in their airports conducting security checks on the their citizens before departing. At issues is whether those agents and funding for them would be better utilized in the U.S. where there is positive control and better access to needed technology to conduct 100% checks. Having an effective number of agents deployed internationally performs a number of deterrence phases to the security of the homeland and increases the security of the host nation partners. The U.S. funds the CBP officers and the host nation covers the pre-clearance operations. With increased security, lower wait times for passengers, and increased throughput of cargo, the host nation is more effective and efficient. Ultimately, this program has proven to be successful and should remain, however, efforts must be increased to collect reimbursements.

Cultural Issues

Cultural issues that can provide obstacles to overseas deployment and combatting transnational criminal organizations are both external (host nation) and internal to the U.S. agencies countering these organizations. Networks of criminal organizations, terrorists, and smugglers are not a concept new to the 21st century; they are as old as man himself. The new

and emerging issues with these networks are their ability to globalize and the U.S. ability to counteract them. The methods for smuggling are no longer simple trails with donkeys loaded with illegal goods. Globalization has increased the quantity and speed at which items can move. Because of the international networks and number of players there is a lack of data regarding the operations and structures of these networks. If data is available, the networks are so complex that the computer models, testing, and tools do not have the technical capability to interpret them. This conceptual underdevelopment of the study of illicit networks and organizations is one of the core problems and provides for an enormous vacuum to counteract them.

Sociologists, criminologists, and anthropologist all perceive transnational criminal organizations as differing phenomena. Sociologist view these organizations from a model based on their discipline, emphasizing the dynamics of collective human behavior. Criminologists tend to view transnational crime as an extension of individual criminality, best left to law enforcement agencies. Anthropologists, political scientists, and international relations specialists perceive the phenomenon through their colored lenses, which are also conflicting. These academic conflicts inevitably lead to conceptual confusion, competing models, and interdisciplinary competition for a definition of what transnational criminal organization are and how to combat them.⁴

This academic confusion also bleeds over into the operational aspects of combatting international transnational criminal organizations. Lawyers will see them differently from law enforcement professional, who will see them differently from Department of Defense personnel. All have a vested interest in their niches and agendas. The number of agencies that are attempting to combat transnational crime are as numerous and varied as the networks they are

⁴ Ibid. Miklaucic, and Naim. 150-151.

attacking. Each organization has its own organizational culture, methods, authorities, jurisdictions, and idiosyncrasies. Just a few of the organizations who are involved in the effort to counter the illicit networks are: the State Department, Department of Defense, Department of Justice, Department of Homeland Security, and the Treasury Department. These parent organizations are further broken down into the Federal Bureau of Investigation; the Drug Enforcement Administration; the Bureau of Alcohol, Tobacco, Firearms, and Explosives; and the U.S. Customs and Border Protection. To further complicate issues, various intelligence agencies are involved, including the Central Intelligence Agency, Defense Intelligence Agency, and each of the DHS agency intelligence offices. Law enforcement organizations understand their role as building criminal cases and prosecuting the individual or organization in a court of law. Whereas military organizations tend to view the challenges in terms of battle campaigns and strikes. The problem of information sharing between organizations is also extremely difficult because of classifications and internal relationships. The differences that have been discussed above are just a few of the problems preventing effective cooperation and the ability to be successful against the transnational criminal networks.⁵

Even more complicated can be the relationship between host nation countries with respect to each other and with the United States. These aforementioned conceptual seams create differing perceptions of illicit networks and illicit commerce within multilateral and bilateral efforts to combat transnational crime. Some nation-states view narcotic trafficking as a demand problem, while others view it as a supply problem; counterfeiting can be seen as a violation of international law or, it may be viewed as a jobs program and method to inject money into the system. National borders are what create price differentiation and supply and demand issues that

⁵ Ibid., 150.

drive the profits of illegal commerce. Borders also provide a safe haven for criminals, terrorists, and illicit networks to hide within. The laws of the nation-state, differences in sovereignty, and border seams allow for the constant jumping back and forth between countries. This creates jurisdictional nightmares for governmental agencies working to combat illegal activities. So while borders are very confining and necessary for national sovereignty, they allow for traffickers to justify their existence, protect them, make their way of life possible, and allow their business to be profitable.⁶

Operational Effectiveness

There are three conceptual delusions regarding transnational criminal networks that influence the way nation-states, law enforcement, defense departments, and civilians combat them. The first is the attitude that crime is crime, and it has been around since the beginning of time, and there is nothing new out there. This is the wrong way to view the problem. The velocity and magnitude of illicit commerce today are unprecedented, representing between 2 to 25 percent of global products.⁷ That amount of illicit goods greatly contributes to a culture of corruption, physical threats against nation states, and the loss of billions of dollars in legal taxes and tariffs. Secondly, illicit networks and transnational crime are often viewed as just about crime and criminals. If the problem is dealt with in a traditional way, with the typical institutions of law enforcement, courts, and jails, the problem will not be solved. The challenge is with the public institutions, and integrity of public administration and their ability to provide incentives and reinforce the value of service to the state. This needs to be a grassroots effort that starts in the schools, churches, homes, and communities through media and with the application of

⁶ Ibid., 151-152.

⁷ Ibid., 152.

incentives and disincentives. Lastly, the individuals involved cannot be regarded as criminals and deviants. Cesare Lombroso, a 1900th century Italian criminologist, argued that criminal nature is inherited and represents a regression from normal human development. His theory of anthropological criminology does not apply and these criminal individuals are only a product of their situation.⁸ Just because one is a criminal does not necessarily mean he is a deviant. Approximately 8 to 10 percent of China's gross domestic product is associated with the manufacturing and sale of counterfeit goods. Even more alarming, sixty percent of Afghanistan's gross national product comes from the cultivation, production, and distribution of the poppy.⁹ Utilizing these two examples and noting the number of people who are involved in the transnational networks, are they guilty of breaking criminal statutes and deviants or just trying to provide for their families? This only adds to the complexity of the problem, who to arrest, and how to attack it.

As discussed earlier in this paper, deterrence is the primary method CBP utilizes to combat transnational crime. By utilizing multiple checks and layered security, the bad actors know it is almost impossible to avoid detection through the common channels that they would commonly move people or illegal goods. For this reason they must utilize other, more expensive, dangerous paths. These commodity chains often span significant geographic areas and require multiple steps, payments, and individuals to be successful. Those who often move the products do not have direct access to money laundering, hawala networks, or transportation networks for the profits of these commodities. Payments are made with cash, weapons, drugs,

⁸ David Horn, *The Criminal Body: Lombroso and the Anatomy of Deviance*, (New York: Routledge 2006), 18.

⁹ Ibid., Miklaucic, and Naim, 150.

chemicals or other materials that are deemed valuable to the network.¹⁰ This creates huge losses and complexities in the chain and makes the transportation of illicit goods and people very difficult.

The true issue with deterrence operations, whether in Department of Defense or U.S. Customs and Border Protection operations, is that there is no true way of knowing if deterrence is effective. The previous paragraphs illustrate how deterrence operations are intended to work and cause discomfort and confusion for transnational criminal organizations. However, there are no measures of effectiveness on the quantity of an illegal good or the number of people that are still making it into the U.S. without inspection. At best, it is estimated that only one third of all illegal aliens and illicit material are being interdicted. Some argue that CBP personnel and resources would be better allocated in the homeland where interdictions and arrests can be better measured and personnel are playing on their home turf.

Measuring direct and indirect impacts to transnational crimes require a great number of assumptions, data, and models that cannot totally be understood because of the size and complexity. However, using the United Nations Office of Drugs and Crime (UNODC's) model for impact of illegal markets it is estimated that the total amount for illegal drugs, human trafficking, excised goods, environmental crimes, and counterfeits can reach the \$1.5 trillion in direct and indirect effect on society.¹¹ With those facts it is important for CBP to do everything

¹⁰ Douglas Farah, "Fixers, Super Fixers, and Shadow Facilitator: How Networks Connect," in *Convergence: Illicit Networks and National Security in the Age of Globalization*, (Washington, D.C.: National Defense University Press, 2013), 75-76.

¹¹ Justin Picard, "Can We Estimate the Global Scale and Impact of Illicit Trade" in *Convergence: Illicit Networks and National Security in the Age of Globalization*, (Washington, D.C.: National Defense University Press, 2013), 57.

in its power to combat these issues. Providing deterrence in foreign countries to increase the chance of seizures and the arrest of individuals is well worth the effort, risk, and funding.

Chapter 5

Recommendations and Conclusion

Recommendations

This paper has outlined the benefits of CBP's expansion overseas and will provide recommendations on how that expansion can continue and improve both the host nation and the U.S.'s national security. The first recommendation is to continue the assessment of the countries in which CBP is invested. The Assistant Commissioner of International Affairs, Mark R. Koumans, twice a year has either a face-to-face or a secure video teleconference meeting with all of the CBP attachés worldwide to discuss the status of CBP, the impact it is having in those host nations, and if continued engagement is needed. These semi-annual assessments ensure that CBP's personnel and budget are utilized wisely and effectively. The agency and the attachés are flexible and adaptable enough that if they need to return to the U.S. it can be accomplished rather quickly.

Second, CBP should continue and expand its overseas short term deployment to countries that request assistance. The Border Patrol Special Operations Group needs to continue to send teams to countries that need assessments. Short term deployment teams are able to assess what a country's border enforcement capability and capacities are and how to improve them. The gaps could be in hiring, initial training, leadership, and or technology and infrastructure. Although most countries do not have the financial abilities to train, equip, and provide infrastructure similar to the U.S., small improvements in training, tactics, and procedures can greatly influence one's ability to be more effective.

Lastly, the Office of Field Operations needs to engage the CBP Office of Trade to continue and expand their international operations and advisement. Enforcement is only half of the CBP mission, the other half is the facilitation of trade and travel. CBP personnel need to engage individuals in transit to the U.S., container security initiatives, and trade procedures. The U.S., if needed, could lock the border down so no one could enter or depart. This idea, however, is not conducive to the American way of life both for personal travel and for the goods the U.S. imports and exports. There needs to be a balance between travel and trade and enforcement and interdiction.

Conclusion

This paper has outlined the events that led to the formation of the Department of Homeland Security and U.S. Customs and Border Protection, the damage that transnational criminal organizations can do to U.S. national interests and security, how CBP's expanding footprint is assisting with the security of the homeland, the challenges and counter-argument to CBP's expansion, and finally recommendations for expansion of overseas operations to further the efficiency and effectiveness on the CBP mission. Both sides of the original thesis question: Bigfoot or big mistake: Is CBP's expanding footprint helping or hurting homeland security? have been addressed. CBP International Affairs is only a small part of DHS and an even smaller part of the giant U.S. government. However small of a portion of the government it is, CBP International Affairs plays a major role in the whole of government approach to securing the U.S.'s national interests and security. It is vital to national security that CBP continue to be deployed and engaged overseas.

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VITA

Mr. Christopher M. Seiler, (DHS/CBP) is the Patrol Agent in Charge serving in the U.S. Border Patrol. He began his career in 2001 in San Diego Sector. In 2005 he became a member of the Border Patrol Tactical Unit (BORTAC) and served on numerous overseas assignments, including Iraq. In 2008 he was promoted to Supervisory Border Patrol Agent in Imperial Beach, CA. He became an Assistant Attaché in Kabul, Afghanistan for CBP International Affairs from 2011-2013. Following his service as an attaché he was promoted to Operations Officer at the U.S. Border Patrol Headquarters in Washington, D.C., where he was later promoted to Assistant Chief in 2013. His most recent command is the Patrol Agent in Charge of the Special Operations Detachment in McAllen, TX. Mr. Seiler has a B.S. in Criminal Justice and a Master's Certificate in Advance International Affairs.

From: (b)(6);(b)(7)(C)
Sent: Friday, November 17, 2017 5:59:29 PM
To: (b)(6);(b)(7)(C)
Cc: (b)(6);(b)(7)(C)
Subject: RE: Cleared Version

(b)(6);(b)(7)(C)

(b) (5)

Thanks so much for all the effort you took to get this in front of the Commissioner.

(b)(6);(b)(7)(C)

(b)(6);(b)(7)(C) | USBP Planning Division

Strategic Planning and Analysis Directorate

Desk: (b)(6);(b)(7)(C) | Mobile: (b)(6);(b)(7)(C) | (b)(6);(b)(7)(C)

From: (b)(6);(b)(7)(C)
Sent: Tuesday, November 14, 2017 1:15 PM
To: (b)(6);(b)(7)(C) >
Subject: Cleared Version

(b)(6);
(b)(7)

Cleared version below:

Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP): Although the Border Patrol has evolved significantly since its inception in 1924, its overall mission remains unchanged: protecting our Nation's borders from illegal entry of people, drugs, and contraband. Together with other law enforcement officers, the Border Patrol helps secure our borders between the ports of entry by detecting, tracking, and interdicting illegal flows of people and contraband, and total apprehensions have in fact fallen from 408,870 in FY16 on the Southwest Border, to 303,916 in FY17. This is the lowest recorded apprehensions within the last 45 years. This measure reports the percent of detected entrants who were apprehended, or turned back after illegally entering the United States between the ports of entry on the southwest border. The Border Patrol achieves this result by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered; and by minimizing the number of persons who evade apprehension. In FY 2017, this measure achieved 78.9% which is a decrease from FY 2016. Concurrently, border detection technology has increased, yielding greater situational awareness of illegal entrants who previously would have gone undetected, however agent staffing shortages reduce the ability to respond. In addition, recent findings indicate illegal aliens are evading arrest tactics due to changes to immigration policies. Going forward, USBP's increased situational awareness will need to be paired with increased response capability.

Thanks,

(b)(6);
(b)(7)

Department of Homeland Security

FY 2017 Agency Financial Report



With honor and integrity, we will safeguard the American people, our homeland, and our values.



Homeland Security



We are DHS

CBP FOIA 004565

Certificate of Excellence in Accountability Reporting



In May 2017, DHS received its fourth consecutive Certificate of Excellence in Accountability Reporting (CEAR) from the Association of Government Accountants (AGA) for its FY 2016 Agency Financial Report, along with a best-in-class award for Best Agency Head Message. The CEAR Program was established by the AGA, in conjunction with the Chief Financial Officers Council and the Office of Management and Budget, to further performance and accountability reporting.

About this Report



The Department of Homeland Security (DHS) Agency Financial Report for Fiscal Year (FY) 2017 presents the Department's detailed financial information relative to our mission and the stewardship of those resources entrusted to us. It also highlights the Department's priorities, strengths, and challenges in implementing programs to enhance the safety and security of our Nation.

For FY 2017, the Department is using the alternative approach—identified in the Office of Management and Budget's Circular A-136—to produce its Performance and Accountability Reports, which consists of the following three reports:

- DHS Agency Financial Report | Publication date: November 15, 2017.
- DHS Annual Performance Report | Publication date: The DHS Annual Performance Report is submitted with the Department's Congressional Budget Justification.
- DHS Report to our Citizens (Summary of Performance and Financial Information) | Publication date: February 15, 2018.

When published, all three reports will be located on our website at: <http://www.dhs.gov/performance-accountability>.

Message from the Secretary

Message from the Secretary

November 14, 2017



I am pleased to present the Department of Homeland Security's (DHS) Agency Financial Report for Fiscal Year (FY) 2017. This report provides an assessment of the Department's detailed financial status and demonstrates how the resources entrusted to us were used to support our critical mission.

DHS manages risk every day, and in an environment of new and evolving threats, we cannot do more with less. As a result, we strive to ensure that the limited resources we have cover our areas of greatest risk before seeking additional resources to meet agency requirements.

Even with the extremely high operational tempo of the Department, DHS continues to be transparent and accountable to our stakeholders and taxpayers when it comes to how their tax dollars are spent. The Government Accountability Office (GAO) recognized the Department in the 2017 High Risk Series for our significant progress toward addressing GAO's outcomes

and meeting criteria to be removed from the GAO High Risk list, demonstrating our continued efforts to transform and integrate our management functions. In 2017, DHS was also recognized by the U.S. Department of the Treasury for demonstrating our full commitment to transparency in achieving compliance with the Digital Accountability and Transparency Act. DHS spending data is available at www.usaspending.gov.

This year, we institutionalized transparent and repeatable processes to guide the Department's resource allocation by mission area rather than Component stovepipes. In one of the largest budget transformations in the Federal Government's history, the Department instituted a Common Appropriations Structure framework, which allows the Department to compare like missions and activities and reduce 76 non-integrated appropriations types to four common appropriations for all Components but the U.S. Coast Guard. The U.S. Coast Guard is transitioning to the Common Appropriations Structure by FY 2019.

For FY 2017, DHS received a clean audit opinion on its financial statements for the fifth consecutive year and continues to strengthen and mature our internal control processes. DHS is the only federal agency required by law to obtain an opinion on internal controls over financial reporting. The Department's maturing internal control program and its comprehensive enterprise approach to remediation are driving continuous progress, as evidenced by the ability to reduce material weaknesses. In FY 2017, with dedicated efforts by all of our Components, but particularly the U.S. Coast Guard, DHS achieved a downgrade of its property, plant and equipment material weakness to a significant deficiency. With the two remaining internal control material weaknesses—Financial Reporting, and Information Technology—DHS is executing a multi-year strategy and plan to achieve an unmodified internal control audit opinion.

Message from the Secretary

DHS remains committed to securing the homeland as well as preparing for and responding to disasters. We will continue to meet these challenges with accountability and transparency — strengthening our risk management, internal controls, and mission-based resourcing to maximize the return on taxpayer investment.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Duke', with a long horizontal flourish extending to the right.

Elaine C. Duke
Acting Secretary of Homeland Security

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Management's Discussion and Analysis



The **Management's Discussion and Analysis** is required supplementary information to the financial statements and provides a high-level overview of the Department of Homeland Security.

The **Overview** section describes the Department's organization, missions and goals, and overview of our Components.

The **Performance Overview** section provides a summary of each homeland security mission, selected accomplishments, key performance measures, and future initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation.

The **Financial Overview** section provides a summary of DHS's financial data explaining the major sources and uses of funds and provides a quick look at our Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activities.

The **Management Assurances** section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act, the Federal Financial Management Improvement Act, and the Department of Homeland Security Financial Accountability Act. This section also describes the Department's efforts to address our financial management systems to ensure systems comply with applicable accounting principles, standards, requirements, and with internal control standards.

Management's Discussion and Analysis

Our Organization

The Department of Homeland Security (DHS) has a fundamental duty—to secure the Nation from the many threats we face. This requires the dedication of more than 240,000 employees in jobs that range from aviation and border security to emergency response, from cybersecurity analyst to chemical facility inspector. Our duties are wide-ranging and as one team, with one mission—we are one DHS—keeping America safe.

DHS's operational Components lead the Department's frontline activities to protect our Nation (shaded in blue). The remaining DHS Components (shaded in light green) provide resources, analysis, equipment, research, policy development, and support to ensure the frontline organizations have the tools and resources to accomplish the DHS mission. For more information about the Department's structure, visit our website at <http://www.dhs.gov/organization>. For information on each of our Components, click on their respective link to the right of the figure below.



Figure 1: DHS Operational and Support Components

Strategic Alignment Overview

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values.* The [FY 2014-2018 Strategic Plan](#) further details the Department's missions and focus area, which are grouped into four major missions for better alignment within the Financial Section for the Statement of Net Cost

and related footnotes to allow the reader to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.



Figure 2: DHS Strategic Plan Alignment for Reporting

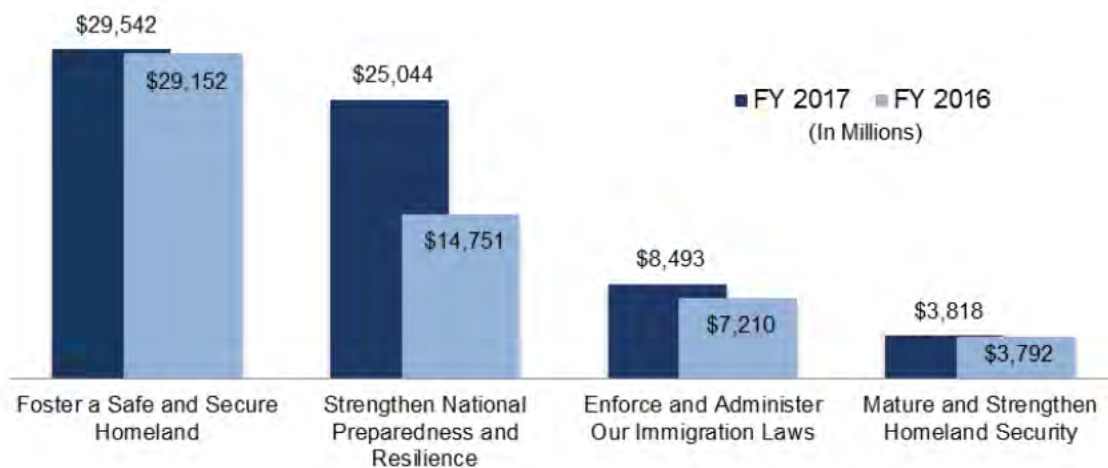


Figure 3: DHS's Net Cost of Operations for Each Major Mission Area

The chart above provides DHS's Net Cost of Operations for each major mission area. Further information about the Department's financial position and results of operations is presented in the Financial Overview section. The Performance Overview that follows provides a summary of performance highlights from a subset of the Department's strategic measures using the structure above.

Management's Discussion and Analysis

Performance Overview

The Performance Overview provides a summary of key performance measures, selected accomplishments, and forward looking initiatives to strengthen the Department's efforts in achieving a safer and more secure Nation. A complete list of all performance measures and results will be published in the DHS FY 2017-2019 Annual Performance Report with the FY 2019 Congressional Budget and can be accessed at: <http://www.dhs.gov/performance-accountability>.

The Department created a robust performance framework that drives performance management and enables the implementation of performance initiatives. This approach also facilitates the reporting of results within the Department for a comprehensive set of measures aligned to the missions and goals of the Department. The figure below shows the linkage between our strategic plan, the Department's mission programs, and the measures we use to gauge performance. This approach to measurement ensures that the Department can assess the achievement of our missions as identified in our strategic framework.

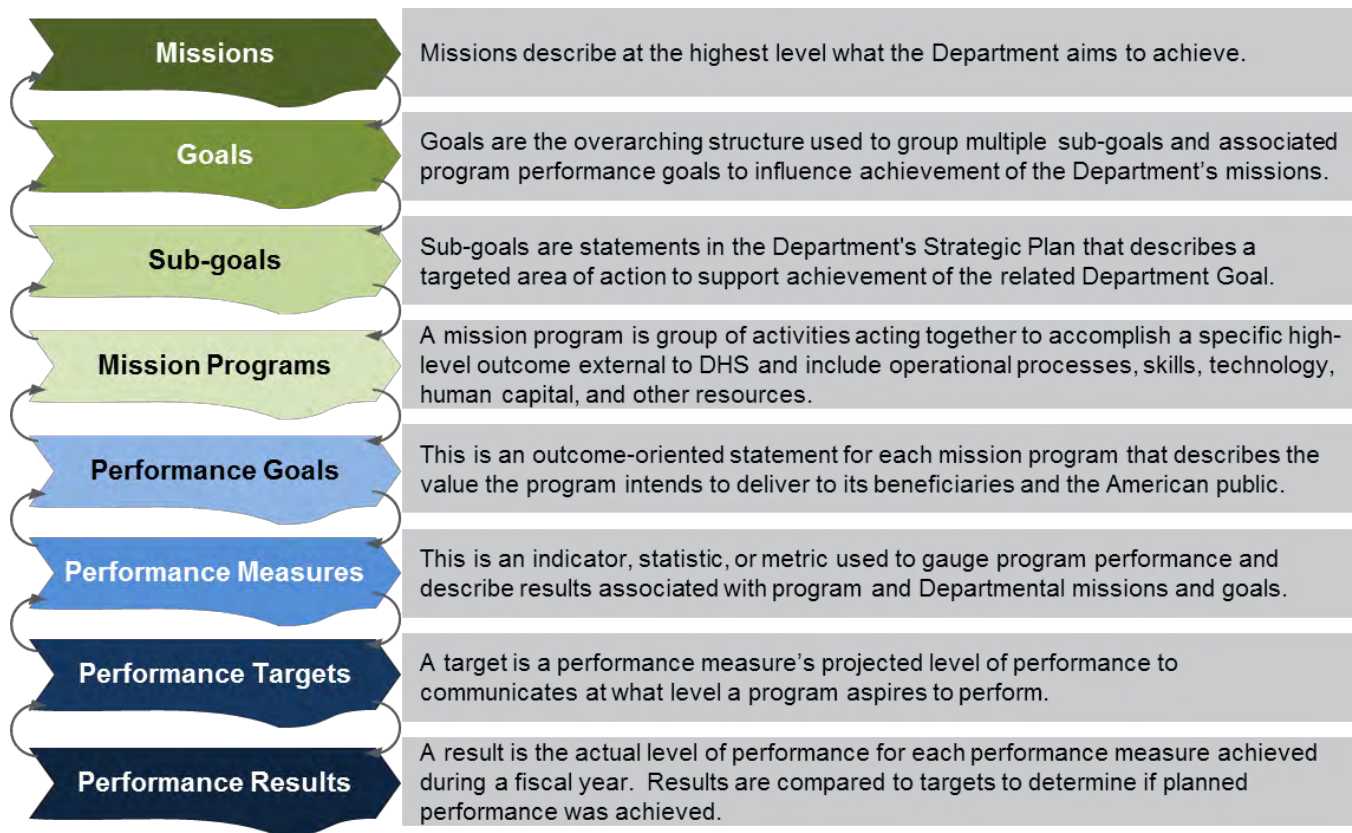


Figure 4: DHS Performance Framework

Foster a Safe and Secure Homeland

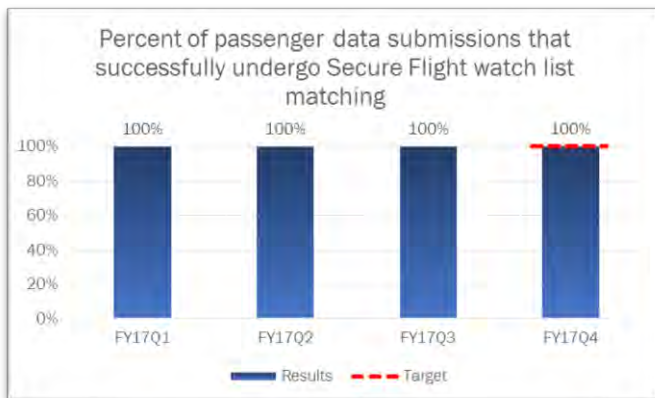
Mission 1: Prevent Terrorism and Enhance Security

Preventing a terrorist attack in the United States remains the cornerstone of homeland security. Our vision is a secure and resilient Nation that effectively prevents terrorism in ways that preserve our freedom and prosperity.

Our goals for this mission are:

- Goal 1.1: Prevent Terrorist Attacks;
- Goal 1.2: Prevent and Protect Against the Unauthorized Acquisition or Use of Chemical, Biological, Radiological, and Nuclear Materials and Capabilities; and
- Goal 1.3: Reduce Risk to the Nation's Critical Infrastructure, Key Leaders, and Events.

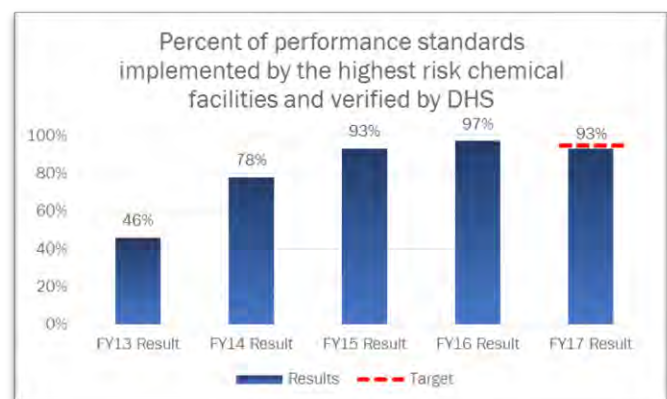
The following highlighted measures gauge our efforts to prevent terrorism and enhance security.



Percent of passenger data submissions that successfully undergo Secure Flight watch list matching (TSA): Vetting individual travelers against high-risk watch lists strengthens the security of the transportation system. This measure reports the percent of qualified message submissions received from the airlines that are successfully matched by the Secure Flight automated vetting system against the existing high-risk watch lists. A qualified message submission from the airlines contains passenger data sufficient to allow successful

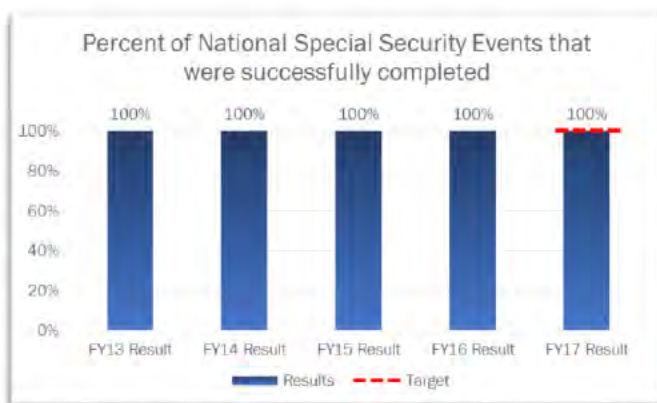
processing in the Secure Flight automated vetting system. In FY 2017, TSA successfully matched 100 percent of passenger data submissions.

Percent of performance standards implemented by the highest risk chemical facilities and verified by DHS (NPPD): The [Chemical Facility Anti-Terrorism Standards](#) (CFATS) program is an important part of our Nation's counterterrorism efforts as the Department works with our industry stakeholders to keep dangerous chemicals out of the hands of those who wish to do us harm. The CFATS program identifies and regulates high-risk chemical facilities to ensure they have security measures in place to reduce the risks associated with these chemicals. Initially authorized by Congress in 2007, the program uses a dynamic multi-tiered risk assessment process and requires facilities identified as high-risk to meet and maintain performance-based security standards appropriate to the facilities and the risks they pose. In FY 2017, DHS delivered guidance to the highest risk chemical facilities,



Management's Discussion and Analysis

prompting these owners and operators to include 21,412 performance standards in their security plans. Of the 21,412 performance standards, 19,914 have been implemented, achieving a 93 percent result for this measure, narrowly missing its target. Implementing these performance standards improves the overall security of the highest risk chemical facilities. In October 2016, DHS rolled out the Chemical Security Assessment Tool (CSAT) 2.0 system, an updated online portal that helps DHS identify facilities that meet the criteria for high-risk chemical facilities. During FY 2017, the implementation of CSAT 2.0 resulted in significant movement of facilities entering and leaving the program. As a result of these updates, DHS saw an overall decrease in the percentage of performance standards implemented by the highest risk chemical facilities, particularly as more facilities were reviewed and re-tiered using the CSAT 2.0 system. DHS will continue to prioritize the implementation of performance standards across the highest risk chemical facilities.



Percent of National Special Security Events that were successfully completed (USSS): [National Special Security Events](#) (NSSE) require a tremendous amount of preplanning and coordination with numerous federal, state, and local jurisdictions. When an event is designated by the Secretary of DHS as an NSSE, the USSS is the lead agency for the design and implementation of the operational security plan. This measure is a percent of the total number of NSSEs completed in a fiscal year where once the event commenced, a security incident inside a

USSS protected venue did not preclude the event's agenda from proceeding to its scheduled conclusion. USSS has attained 100 percent success for the past five years.

Have You Opted In?

↑↑↑ Expedited Screening

TSA Pre✓

- Dedicated TSA Pre✓ lanes
- Keep your shoes, coat and belt on
- Leave your laptop and liquids in your bag

TSA Pre✓® Reaches Milestone with more than 5 Million Travelers Enrolled

The Transportation Security Administration TSA Pre✓® program reached a milestone in July 2017 of more than 5 million travelers enrolled. TSA Pre✓® now has more than 390 application centers nationwide.

“By growing the trusted traveler population, we help our officers focus on potential threats, which strengthens the security screening process and ultimately provides better security for all travelers,” said TSA Acting Administrator Huban A. Gowadia¹. “We will continue our efforts to further expand the TSA Pre✓® program, with the ultimate goal of providing the most effective security in the most efficient way.”

TSA Pre✓®, which is now available at more than 180 U.S. airports, is an expedited screening program that enables low-risk travelers to enjoy a more convenient and efficient screening experience. Travelers using the TSA Pre✓® lane do not need to remove shoes, belts, light jackets, laptops, or 3-1-1 liquids from their carry-on bags.

U.S. citizens and lawful permanent residents may apply for TSA Pre✓® for a cost of \$85 for five years. Once approved, travelers will receive a “known traveler number” and will have the opportunity to utilize TSA

Pre✓® lanes at select security checkpoints when flying on any of the 37 participating airlines. TSA Pre✓® is also available for U.S. Armed Forces service members, including those serving in the U.S. Coast Guard, Reserves, and National Guard.

¹ David Pekoske was confirmed by the U.S. Senate as the Transportation Security Administration’s seventh administrator in August 2017.

Looking Forward

The United States has made significant progress in securing the Nation from terrorism. Nevertheless, the evolving and continuing threat from terrorists remains, as witnessed by events around the globe. The Department and its many partners, which includes international and federal, state, local, tribal and territorial governments, public and private sectors, and communities across the country, have strengthened the homeland security enterprise to better mitigate and defend against these dynamic threats. Below are a few areas that advance our efforts to achieve the Department's mission of preventing terrorism and enhancing security.

TSA Enhancing Security to Mitigate Checkpoint Gaps: TSA continues to advance our ability to assess potential threats from aviation passengers both in the domestic and international domains. We will continue to improve the Threat Image Projection data quality to ensure the security of the traveling public. Ongoing testing and deployment of new technology to identify threats is underway. Based on the results of these tests, plans will be made to enhance our ability to identify and mitigate checkpoint gaps. In addition, specific improvements are being made to enhance airport perimeter and access security and identity vetting.

Chemical Facility Tiering: Tier 1 and 2 facilities are those chemical facilities that pose the highest risk with respect to vulnerability, consequence, and threat factors. The [CFATS program](#) identifies and regulates high-risk chemical facilities to ensure they have security measures in place to reduce the risks associated with certain chemicals of interest. The challenge is that the number and tier of existing chemical facilities changed in FY 2017 based on a revised methodology enacted at the beginning of FY 2017. These changes in tiering pose a challenge in that the backlog of facilities needing assessments changed dramatically and will have an impact to get all assessments up to date. Moving forward, the Department will look into scheduling and staffing approaches that will prioritize the assessment of all Tier 1 and 2 chemical facilities to achieve an acceptable level of oversight and understanding. DHS anticipates that the tiering for the highest risk chemical facilities will stabilize in FY 2018 as facilities continue to self-report chemicals of interest under the new methodology.

USSS Protecting Critical Infrastructure, Key Leaders, and Events: USSS has numerous efforts underway to meet increasing operational challenges including reducing time to hire, retention initiatives, and technology development. Challenges have been faced with the increased demands on the protective mission in terms of both scope and complexity. Thus the USSS is looking at new and unique methods to address a broad range of areas to include: modernization and support of mission-critical information technology (IT) systems; infrastructure for protective and investigative mission operations; improved staffing and career models to ensure proper work/life balance for agents; new staffing goals and retention initiatives to reduce attrition; and enhancing training infrastructure to meet future needs.

Management's Discussion and Analysis

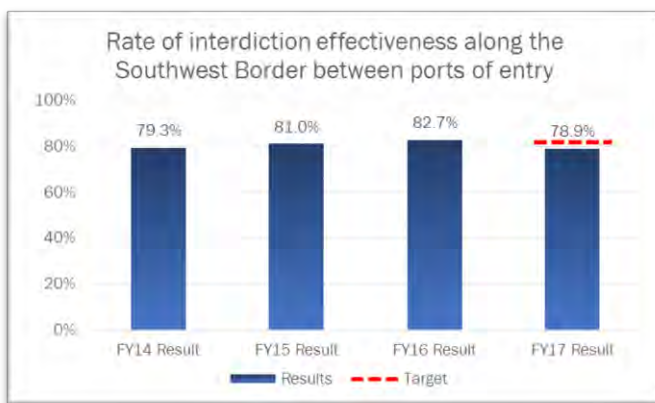
Mission 2: Secure and Manage Our Borders

DHS secures the Nation's air, land, and sea borders to prevent illegal activity while facilitating lawful travel and trade.

Our goals for this mission are:

- Goal 2.1: Secure U.S. Air, Land, and Sea Borders and Approaches;
- Goal 2.2: Safeguard and Expedite Lawful Trade and Travel; and
- Goal 2.3: Disrupt and Dismantle Transnational Criminal Organizations and Other Illicit Actors.

The following highlighted measures gauge our efforts to secure and manage our borders.

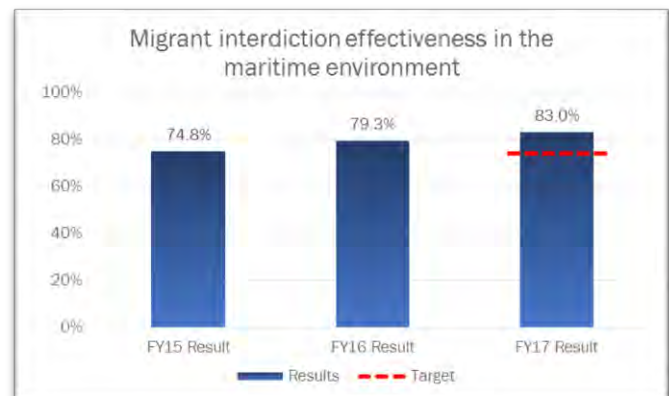


Rate of interdiction effectiveness along the Southwest Border between ports of entry (CBP):

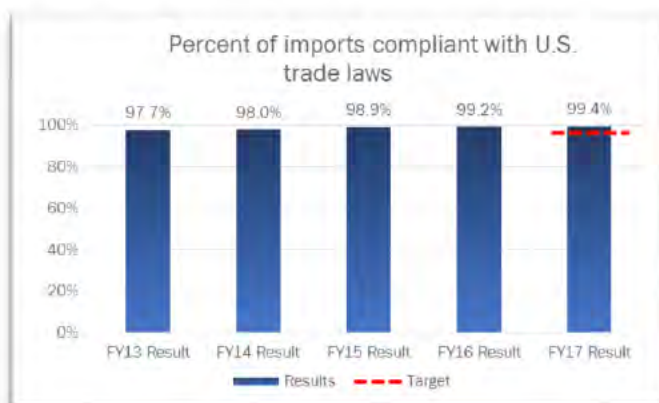
As a division of CBP, the Border Patrol has evolved significantly since its inception in 1924; however, its overall mission remains unchanged: protecting our Nation's borders from illegal entry of people, drugs, and contraband. Together with other law enforcement officers, the Border Patrol helps secure our borders between the ports of entry by detecting, tracking, and interdicting illegal flows of people and contraband. This measure reports the percent of detected

entrants who were apprehended, or turned back after illegally entering the United States between the ports of entry on the southwest border. The Border Patrol achieves this result by maximizing the apprehension of detected illegal entrants or confirming that illegal entrants return to the country from which they entered; and by minimizing the number of persons who evade apprehension. In FY 2017, this measure achieved 78.9 percent which is a decrease from FY 2016. Concurrently, border detection technology has increased, yielding greater situational awareness of illegal entrants who previously would have gone undetected, however agent staffing shortages reduce the ability to respond. Going forward, the Border Patrol's increased situational awareness will need to be paired with increased response capability. The Department is making investments in recruitment, retention, and relocation programs to address these challenges. Further discussion is located in the "Looking Forward" portion of this section on page 11.

Migrant interdiction effectiveness in the maritime environment (USCG): This measure reports the percent of detected undocumented migrants of all nationalities who were interdicted by the USCG and partners via maritime routes. Thousands of people try to enter this country illegally every year using maritime routes. USCG conducts patrols and coordinates with other federal agencies and foreign countries to interdict undocumented



migrants at sea, denying them entry via maritime routes to the United States, its territories and possessions. Interdicting migrants at sea means they can be quickly returned to their countries of origin without the costly processes required if they successfully enter the United States. In its third year of reporting, the USCG achieved 83.0 percent migrant interdiction effectiveness, up from FY 2016. This increase is primarily due to a reduction in Cuban migrant flow following the termination of the Cuban parole policy² in January 2017. The decrease in Cuban migrant flow enabled USCG patrol assets to improve response and have greater interdiction success in the Florida Straits.



Percent of imports compliant with U.S. trade laws (CBP): Ensuring that all imports are compliant and free of major discrepancies allows for lawful trade into the United States and both CBP and the importing/exporting community have a shared responsibility to maximize compliance with laws and regulations. CBP works with our international trade partners through several trade programs to build—and improve upon—a solid and efficient trade relationship to accomplish safer, faster, and more compliant trade. This measure reports the

percent of imports that are compliant with U.S. trade laws including customs revenue laws. In FY 2017, 99.4 percent of imports were found to be compliant with U.S. trade laws, meeting this year's target. Results have improved year-over-year for the past five-years.



A Unified Effort: Combating Transnational Gang Violence within the Interior Borders of the United States

In February 2017, President Trump signed Executive Order 13773, aimed at targeting transnational criminal organizations (TCO), such as drug cartels or gangs like Mara Salvatrucha (MS-13). The Executive Order is a multifaceted approach in attacking TCOs that pose a threat to national security and/or public safety. U.S. Immigration and Customs Enforcement (ICE), Homeland Security Investigations (HSI), remains vigilant in disrupting and dismantling violent gang activity in collaboration with our state, local, and tribal, and foreign law enforcement partners.

Due to violence caused by members of MS-13, HSI New York established Operation Matador (OPMAT). OPMAT is a multi-pronged approach in which HSI NY partnered with other DHS components to combat MS-13 in the greater New York City area. OPMAT is primed to disrupt and dismantle MS-13 through five key elements: intelligence gathering; actionable lead development; targeted enforcement; investigation development; and community outreach to at-risk youth in the affected cities. From May 9, 2017 to June 30, 2017, OPMAT has led to 68 arrests of known gang members, 60 of which were established as MS-13 gang members. ICE remains committed in working in a unified approach in combating gang violence and disrupting the MS-13 pipeline.

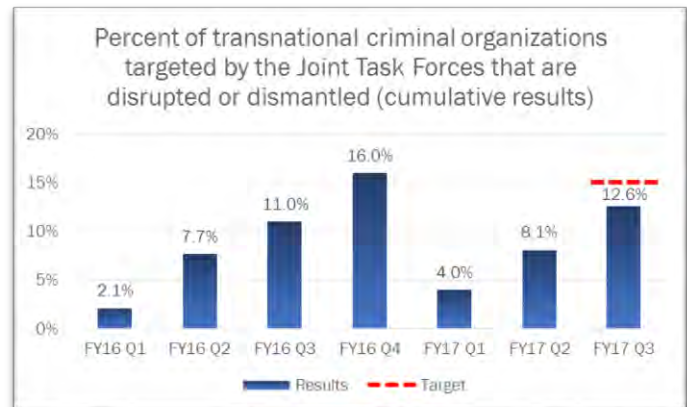
Priority Goal: Decrease the ability of targeted transnational criminal organizations to conduct illicit activities impacting the southern border and approaches region of the United States. By

² On January 12, 2017, DHS eliminated a special parole policy for arriving Cuban nationals commonly known as the "wet-foot/dry-foot" policy, as well as a policy for Cuban medical professionals known as the Cuban Medical Professional Parole Program. It is now Department policy to consider any requests for such parole in the same manner as parole requests filed by nationals of other countries.

Management's Discussion and Analysis

September 30, 2017, actions by the DHS Joint Task Forces via synchronized component operations will result in the disruption and/or dismantlement of 15 percent of targeted transnational criminal organizations.

Performance Analysis: Through the execution of coordinated operational plans and investigations, the [Joint Task Forces](#) (JTFs) were able to enable the disruption and dismantlement of 12.6 percent (as of the 3rd quarter FY 2017³) of their targeted transnational criminal organizations, and is on track to meet its goal of 15 percent for this important work. The JTFs continue to coordinate across organizational boundaries to make positive advances with operations with joint investigations and operations within their functional areas, and are supported by DHS operational components in order to enhance DHS's effort in securing the U.S. Southern Border and Approaches. JTFs facilitated broader discussions with Components and garnered the reallocation of resources, including assets and personnel, to meet operational requirements.



Looking Forward

The protection of the Nation's borders—land, air, and sea—from the illegal entry of people, weapons, drugs, and other contraband while facilitating lawful travel and trade is vital to homeland security, as well as the Nation's economic prosperity. The global economy is increasingly a seamless economic environment connected by systems and networks that transcend national boundaries. The United States is deeply linked to other countries through the flow of goods and services, capital and labor, and information and technology across our borders. As much as these global systems and networks are critical to the United States and our prosperity, they are also targets for exploitation by our adversaries, terrorists, and criminals. Below are a few initiatives that advance our efforts to secure and manage our borders.

Increases in Border Infrastructure and Technology: [Executive Order \(EO\) 13767](#), *Border Security and Immigration Enforcement Improvements*, requires significant enhancement of border infrastructure and technology. Out year planning has begun to include border barrier system extensions and enhancements and additional assets to include: Integrated Fixed Towers to provide automated, persistent wide area surveillance for the detection, tracking, identification, and classification of illegal entries; Remote Video Surveillance Systems to monitor large spans of the international border; and Cross-Border Tunnel Threat technology to diminish the ability of transnational criminal organizations to gain unobtrusive access into the United States through cross-border tunnels and the illicit use of underground municipal infrastructure.

³ Final results for this measure will be published in the FY 2017-2019 Annual Performance Report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

Border Patrol Staffing: EO 13767 also addresses increasing staff on the border by requiring that DHS hire an additional 5,000 Border Patrol Agents. In response to this directive, CBP's Human Resource Management (HRM) office has developed a multi-year hiring plan to meet the new staffing requirement for Border Patrol. Of the 5,000 planned agent increase, the first surge is planned for 500 agents in FY 2018 and is in addition to the normal attrition hiring conducted by CBP HRM. This initial hiring surge will lay the foundation in increasing operational control in certain key areas along the border. The goal is to increase and maintain a Border Patrol Agent workforce to attain full operational control of the border. This will be an ongoing challenge to find qualified candidates who can pass the protocols to become a Border Patrol Agent, including a polygraph exam, along with ensuring that those who are hired remain in the Border Patrol and do not move to another law enforcement position within the Federal Government or to the private sector.

Biometric Entry Exit: [EO 13769](#), *Protecting the Nation from Foreign Terrorist Entry* into the United States, addresses challenges in screening and vetting protocols and associated technology and procedures with the visa-issuance and management process. One of the efforts to support this Executive Order is the Biometric Entry-Exit System. The Department will utilize the cloud-based Traveler Verification Service system and supporting information technology infrastructure to analyze and verify travelers' identity using biometric data such as facial and fingerprint recognition. This will allow CBP Officers to assist airline partners and other government agencies to verify the identity of travelers entering and exiting the United States. The Department intends to adapt these innovative air environment technological solutions for land and sea environments.

Mission 4: Safeguard and Secure Cyberspace

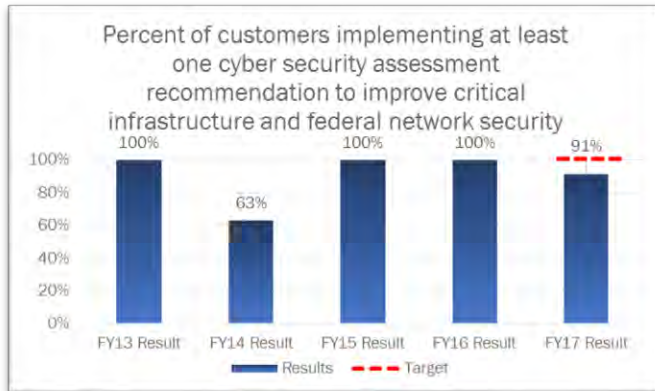
Our economic vitality and national security depend on a vast array of interdependent and critical cybernetworks, systems, services, and resources. By statute and Presidential Directive: DHS is the lead for the Federal Government to secure civilian government computer systems; works with industry to defend privately owned and operated critical infrastructure; prevents, detects, and investigates cybercrime; and works with state, local, tribal, and territorial governments to secure their information systems.

Our goals for this area are:

- Goal 4.1: Strengthen the Security and Resilience of Critical Infrastructure against Cyber Attacks and other Hazards;
- Goal 4.2: Secure the Federal Civilian Government Information Technology Enterprise;
- Goal 4.3: Advance Cyber Law Enforcement, Incident Response, and Reporting Capabilities; and
- Goal 4.4: Strengthen the Cyber Ecosystem.

The following highlighted measures gauge our efforts to safeguard and secure cyberspace.

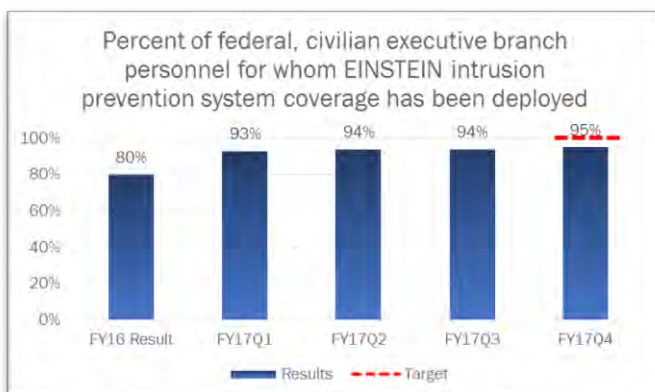
Management's Discussion and Analysis



Percent of customers implementing at least one cyber security assessment recommendation to improve critical infrastructure and federal network security (NPPD): This measure demonstrates the percent of assessed asset owners and operators of critical infrastructure that are not only developing a better understanding of their cybersecurity posture, but are also taking action to improve that posture. In FY 2017, 91 percent of organizations who received an assessment also implemented at least one cybersecurity

enhancement, down from the last two years. Making enhancements is at the discretion of the customer and may not be implemented for a number of reasons to include funding, internal policies and priorities, organizational maturity, and internal expertise. Note that a small number of organizations are known to have implemented security recommendations during the actual assessment process but these efforts were not necessarily reflected in their survey response. Going forward, the program will review its methodology for this measure to ensure the data collection efforts are targeted to the customers who were involved in the assessment and improvement process.

Amount of dollar loss prevented by Secret Service cyber investigations (in millions) (USSS): The USSS maintains [Electronic Crimes Task Forces](#) that focus on identifying and locating domestic and transnational cybercriminals connected to cyber-intrusions, bank fraud, data breaches, and other computer-related crimes. This measure reflects USSS' efforts to reduce financial losses to the public from cybercrimes. In the second quarter of FY 2017, the Secret Service closed an investigation into a network intrusion impacting a major U.S. retailer. This case involved over 4.5 million devices and substantial potential fraud losses totaling well in excess of the annual performance target. The year-to-year results for this performance measure are highly volatile based upon the cases closed in a particular reporting period.



Percent of federal, civilian executive branch personnel for whom EINSTEIN intrusion prevention system coverage has been deployed (NPPD): This measure gauges the intrusion prevention coverage provided by EINSTEIN 3 Accelerated (E3A) that is currently operating on civilian executive branch networks. E3A has the capacity to both identify and block known malicious traffic. This performance measure assesses the extent to which DHS has deployed

at least one E3A countermeasure to protect federal, civilian executive branch agencies. The FY 2017 result reflects an increase of approximately 525,000 federal civilian personnel protected by E3A intrusion prevention services from the FY 2016 end of year result. As of September 30, 2017, 95 percent of the federal, civilian executive branch personnel and 100 percent of Chief Financial Officer (CFO) Act agency personnel are protected by at least one E3A countermeasure. DHS continues to work with relevant internet service providers, and federal entities to deploy E3A at remaining Small/Micro agencies; however, these agencies have fewer Information Technology (IT) staff, and E3A competes with resources dedicated to day-to-day operations, and other cybersecurity initiatives and requirements.



Malware Impacts to the Nation's Supply Chain

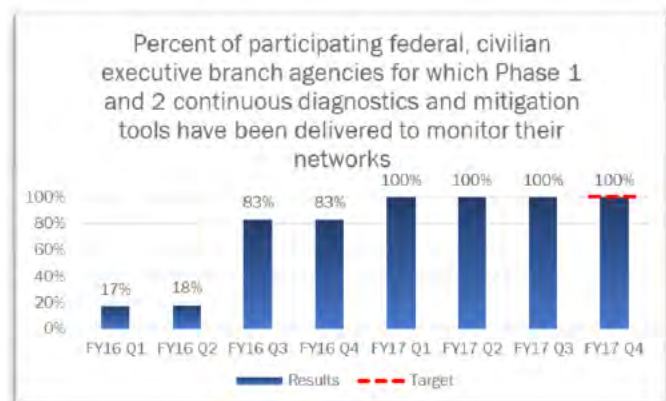
In collaboration with the National Center for Manufacturing Sciences, DHS's NPPD, National Cyber Exercise and Planning Program (NCEPP) designed an exercise to test cyber-elements of the manufacturing sector. The June 27, 2017 exercise was held in Ann Arbor, MI with 20 stakeholder groups. It explored cyber-incident response to their discovery of critical systems infected with malware designed to affect radio frequency identification (RFID) components (e.g., readers, scanners, and tags) that impact the supply chain. During this full-day tabletop exercise, NCEPP facilitators guided exercise participants through three separate

scenarios to address the issues. This is important because the complexities associated with RFID tagging systems include an increased potential for the exploitation of vulnerabilities. Participants discovered through this exercise that an abundance of external resources were available to help them about which they were not aware. The exercise also demonstrated that cyber-incident response capabilities varied widely among participating organizations. Surprisingly, larger organizations were more likely to maintain open lines of communications and/or share cyber-threat information than smaller entities. Cyber-exercises of this type aid in addressing the DHS Strategic Goals of strengthening the security and resilience of critical infrastructure against cyber-attacks, and reducing risk to the Nation's most critical infrastructure.

Priority Goal: Improve federal network security by providing federal civilian executive branch agencies with the tools and information needed to diagnose, mitigate, and respond to cybersecurity threats and vulnerabilities. By September 30, 2017, DHS will deliver two phases of continuous diagnostics and mitigation tools to 100 percent of the participating federal civilian executive branch agencies so that they can monitor their networks.

Performance Analysis: The Continuous Diagnostics and Mitigation (CDM) program provides federal agencies with capabilities to identify cybersecurity risks, prioritize those risks, and enable mitigation of the most significant problems first. Thus it is imperative that contracts to implement CDM on the federal network are awarded in a timely manner. As of the end of the first quarter of FY 2017, the program attained its target of 100 percent with 69 agencies participating in Phase 1 (asset management) and

65 agencies participating in Phase 2 (user management) tools. The final award for Phase 2 tools was completed the first quarter of FY 2017 and 100 percent of Phase 1 and Phase 2 have been delivered for installation to participating federal, civilian executive branch agencies. It should be noted that not every non-Defense federal organization is currently participating in



Management's Discussion and Analysis

the CDM program and this measure only reflects those agencies that have chosen to participate in the program.

Looking Forward

Cyberspace and its underlying infrastructure are vulnerable to a wide range of risk stemming from both physical and cyberthreat hazards. Sophisticated cyber-actors and nation-states exploit vulnerabilities to steal information and money and are developing capabilities to disrupt, destroy, or threaten the delivery of essential services. A range of traditional crimes are now being perpetrated through cyberspace, including banking and financial fraud, intellectual property violations, and other crimes, all of which have substantial human and economic consequences. As information technology becomes increasingly integrated with physical infrastructure operations, there is increased risk for wide-scale or high-consequence events that could cause harm or disrupt services upon which our economy and the daily lives of millions of Americans depend. In light of the risk and potential consequences of cyber-events, strengthening the security and resilience of cyberspace has become an important homeland security mission.

Continuous Diagnostics and Mitigation: The Continuous Diagnostics and Mitigation (CDM) program provides tools, sensors, and dashboards to the 23 Chief Financial Officer (CFO) Act agencies and is in the process of deploying a shared services CDM offering to provide the same capabilities to non-CFO Act agencies. As part of the CDM Program, two dashboards were developed—first the Agency Dashboard and then the Federal Dashboard. Agency Dashboards push agency-specific summary data from federal civilian agencies to the Federal Dashboard user interface. The Federal Dashboard provides the Office of Cybersecurity and Communications (CS&C) with a federal enterprise view of cybersecurity risk. It provides access to security information that will be used in a variety of ways, with new features and methods still under development. DHS is delivering the program in phases with the first two phases in the implementation and deployment stage. A number of agencies have successfully deployed the first phase of the program and have begun to utilize the prioritized vulnerability information provided to address key security weaknesses on their networks. It is anticipated that the deployment of the second phase tools and the contract delivery of the third phase will occur in FY 2018. DHS is planning on measuring the effectiveness of the CDM program through the timely patching of identified critical vulnerabilities on the federal network beginning in 2018. Many challenges are faced in this endeavor, including federal agencies prioritizing the deployment and use of these tools, and having seasoned Chief Information Officer leadership and staff to implement and leverage these tools to enhance federal network security. Also, it should be noted that CDM is not currently a statutorily required program, thus there are agencies who have chosen not to participate. DHS is working to demonstrate the benefits of the program to those non-participatory agencies in order to make the program as robust as possible.

Automated Indicator Sharing: In 2017, DHS made great strides in fulfilling a legislative requirement to share cyberthreat information with both public and private sector partners in near real time, but challenges remain. Being able to distinguish between real threats and those that do not pose harm to information systems is an ongoing challenge for agencies want to focus their response and corrective actions on only those threats that pose real harm. The Automated Indicator Sharing (AIS) program rapidly expanded both the volume of cyberthreat indicators shared and the number of public and private stakeholders participating in the

program FY 2017. The number of indicators shared through AIS increased from 100,394 in FY 2016 to over 1.2 million in FY 2017. Federal partners participation also grew from 7 agencies in FY 2016 to 25 in FY 2017 with all 23 non-defense CFO Act agencies and two additional agencies participating. Within DHS, all of the department's internal security operations centers were able to connect to AIS through the introduction of a web based platform to share indicators within the agency in real time to protect against known threats. Participation in the program was also extended to state governments, critical infrastructure sectors, and trusted allied nations. The number of non-federal participants increased dramatically from 45 in FY 2016 to 90 in FY 2017. The intent is to continue to grow the quantity of information shared by both DHS and participating entities and further expand the number of partners both domestically and internationally.

National Cybersecurity Protection System: The National Cybersecurity Protection System is an integrated system that delivers a range of capabilities to include intrusion detection and prevention, analytics, and information sharing of malicious activity on federal networks. The system currently detects and blocks threats that are already known by DHS from harming the federal network. While preventing known threats is important, the system currently lacks the capability to identify and block previously unknown threats from entering federal networks. To increase the effectiveness of the system, DHS is currently piloting a program to develop the capability to detect previously unknown malicious activity on a network. This capability would establish a baseline for normal network behavior and traffic and alert DHS to any deviations or abnormalities from that baseline. This pilot program has the potential to enable DHS to discover malicious activity and actors that were previously unknown to the information security community and share it with public and private partners in near real time. The impact would be improved situational awareness of cyberthreats and the ability to block our adversaries most sophisticated attack methods. Challenges with this approach are being able to accurately predict the nature of new threats and the impact they may cause. In addition, there is the challenge to respond in an appropriate fashion without directing limited staff resources unnecessarily to threats that would not have been impactful.

Strengthen National Preparedness and Resilience

Mission 5: Strengthen National Preparedness and Resilience

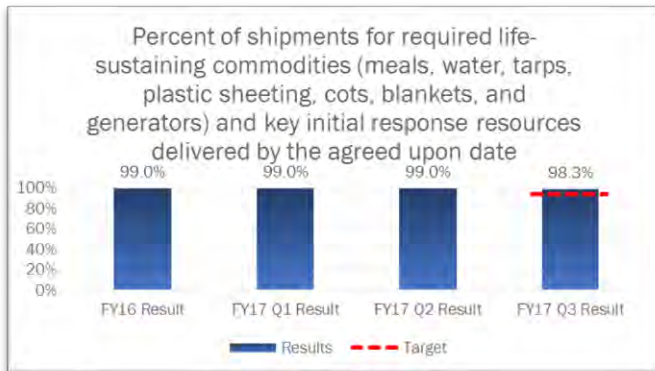
Despite ongoing vigilance and efforts to protect this country and its citizens, major accidents and disasters, as well as attacks, may occur. The challenge is to build the capacity of American communities to be resilient in the face of disasters and other threats. Our vision of a resilient Nation is one with the capabilities required across the whole community to prevent, protect against, mitigate, respond to, and recover from the threats and hazards that pose the greatest risk.

Our goals for this mission are:

- Goal 5.1: Enhance National Preparedness;
- Goal 5.2: Mitigate Hazards and Vulnerabilities;
- Goal 5.3: Ensure Effective Emergency Response; and
- Goal 5.4: Enable Rapid Recovery.

Management's Discussion and Analysis

The following highlighted measures gauge our efforts to strengthen national preparedness and resilience. Due to Hurricanes Harvey, Irma, and Maria, FEMA is unable to provide year-end results in time for this report. As such, their 3rd quarter results are provided for context and their final results will be available in the FY 2017-2019 Annual Performance report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

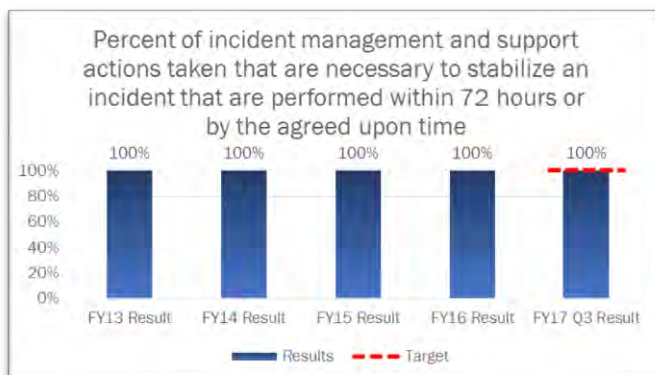
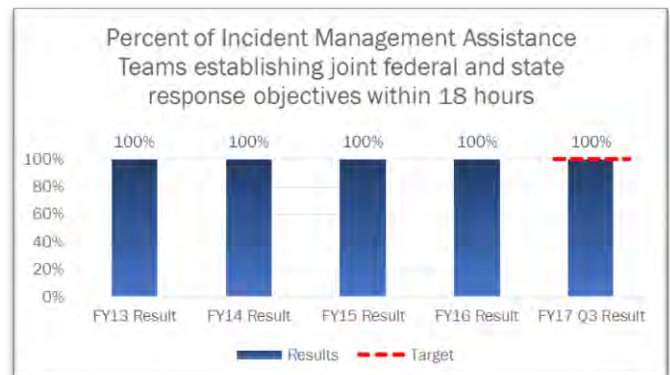


Percent of shipments for required life-sustaining commodities (meals, water, tarps, plastic sheeting, cots, blankets, and generators) and key initial response resources delivered by the agreed upon date (FEMA): This measure evaluates the percent of shipments from [FEMA distribution centers](#) or logistics partners that arrive at the specified location by the validated and agreed upon delivery date. Timely delivery of many of these commodities are truly life-saving as well as life-sustaining. For the past two years, FEMA's distribution centers and

logistics partners have met expectations.

Percent of Incident Management Assistance Teams establishing joint federal and state response objectives within 18 hours (FEMA):

This measure gauges the percent of time that Incident Management Assistance Teams ([IMATs](#)) have deployed and have established initial joint federal and state response objectives within 18 hours of a request from a state or jurisdiction. IMATs are made up of dedicated and experienced senior-level emergency management professionals that are able to deploy upon a moment's notice when requested by the state. IMATs generally consist of 10 members, with expertise in operations, logistics, planning, and recovery. They are a rapidly deployable asset to anywhere in the region or the country, supporting our states and territories in their emergency response efforts. For the past five years, when called upon, IMATs have establishing joint federal and state response objectives within 18 hours, 100 percent of the time.



Percent of incident management and support actions taken that are necessary to stabilize an incident that are performed within 72 hours or by the agreed upon time (FEMA):

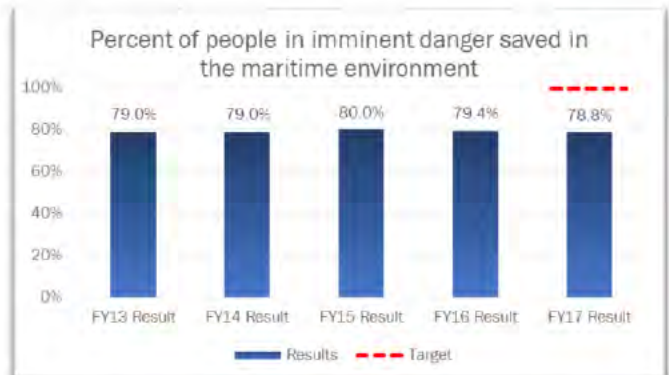
This measure reflects FEMA's role in effectively responding to any threat or hazard, with an emphasis on saving and sustaining lives within 72 hours, or by the agreed upon time, in support of state, local, tribal and territorial governments. "Actions necessary to

Management's Discussion and Analysis

stabilize an incident" are defined as those functions that must be initiated immediately following an incident in order to ensure the best outcomes for survivors. These actions include establishing joint federal/state incident objectives and interoperable communications between FEMA-supported incident sites, deploying urban search and rescue resources, rapidly activating response coordination centers, and issuing timely alerts, warnings, operations orders, and situation reports. For the past five years, incident management and support actions have been performed within 72 hours, or by the agreed upon time, 100 percent of the time.

Percent of people in imminent danger saved in the maritime environment (USCG):

This is a measure of the percent of people who were in imminent danger on the oceans and other waterways and whose lives were saved by [USCG search and rescue teams](#). The number of lives lost before and after the USCG is notified and the number of persons missing at the end of search operations are factored into this percentage. Several factors hinder successful response including untimely distress notification to the USCG, incorrect distress site location reporting, severe weather conditions at the distress site, and distance to the scene. The USCG saved more than 4,200 lives in FY 2017, which was 78.8 percent of those in danger, and is consistent with long-term results and trends. The target for this measure will likely be adjusted in FY 2018 to be ambitious but more in-line with historical results. The USCG will continue to plan, train, develop better technologies, and invest in capable assets to continue their exemplary performance in saving lives in the maritime environment.



Surge Capacity Force

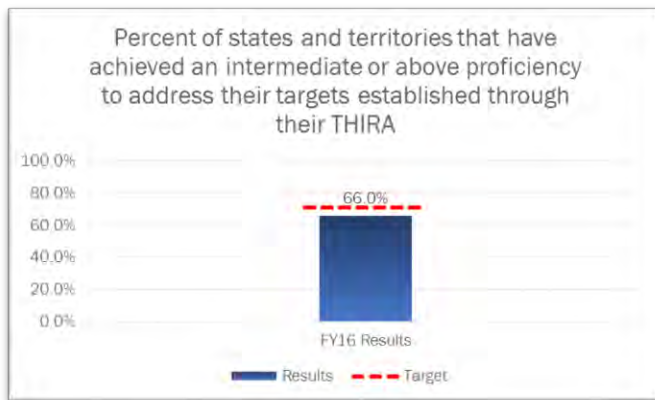
In the aftermath of a catastrophic event, DHS turns to its [Surge Capacity Force](#), a cadre of federal employee heroes who help affected communities by supporting the Federal Emergency Management Agency's (FEMA) urgent response and recovery efforts. The Surge Capacity Force is made up of federal employees from every Department or Agency in the Federal Government.

The Post-Katrina Emergency Management Reform Act of 2006 (Public Law 109-295) established the Surge Capacity Force to deploy federal employees in the aftermath of a catastrophic event to help support response and recovery efforts. DHS activated the Surge Capacity Force for the first time in 2012 in support of Hurricane Sandy. More than 1,100 (non-FEMA) federal employees deployed to New York and New Jersey to supplement FEMA's substantial disaster workforce.

In the immediate aftermath of Hurricanes Harvey, Irma, and Maria, Acting Secretary of Homeland Security Elaine Duke activated the Surge Capacity Force—the second time in the Surge Capacity Force existence. Surge Capacity Force volunteers from throughout the Federal Government supported disaster survivors in Texas, Florida, Puerto Rico, and the U.S. Virgin Islands. As of September 21, 2017, more than 2,000 federal employees were deployed for these relief efforts.

Priority Goal: Enhance the Nation's ability to respond to and recover from a catastrophic disaster through whole community preparedness and partnership. By September 30, 2017, 70 percent of states and territories will achieve an intermediate or above proficiency toward meeting the targets established through their Threat and Hazard Identification and Risk Assessment ([THIRA](#)).

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Performance Analysis: This measure assesses the percent of state and territorial State Preparedness Report (SPR) ratings at or above the 3.0 threshold when averaging across the planning, organization, equipment, training, and exercise elements rated by grantees for each core capability. While the target was narrowly missed in FY 2016, all indications are that the FY 2017 target will be met; however, due to Hurricanes Harvey, Irma, and Maria, FEMA is unable to provide year-end results in time for this report. The results will be available in the

FY 2017-2019 Annual Performance report in early February 2018 at <https://www.dhs.gov/performance-financial-reports>.

Looking Forward

The Department coordinates comprehensive federal efforts to prepare for, protect against, respond to, recover from, and mitigate a terrorist attack, natural disaster or other large-scale emergency, while working with individuals, communities, the private and nonprofit sectors, faith-based organizations, and federal, state, local, tribal, and territorial partners to ensure a swift and effective recovery effort. Hurricanes Harvey, Irma, and Maria remind us all of the importance of preparedness and resilience in the face of disaster. Below are a few initiatives that advance our efforts to achieve our preparedness and resilience goals.

National Flood Insurance Program: The Department administers the [National Flood Insurance Program](#) (NFIP) to reduce the impact of flooding on private and public structures. The NFIP takes a multi-faceted approach that includes providing affordable insurance to property owners while also encouraging communities to adopt floodplain management regulations and invest in mitigation efforts; however, challenges exist in maintaining the viability of this program. To address the financial stability of the NFIP, DHS plans to support long term reauthorization of the NFIP by promoting transparency around the NFIP's revenue, expenses, risk exposure, and available risk management tools as NFIP reauthorization-related discussions progress with DHS, the Administration, and Congress. FEMA is leveraging existing investments in analytic capacity and engagements with the reinsurance industry to better understand the NFIP's risk profile and appropriate risk management strategies.

Disaster Workforce Structure: In order to be prepared for all hazards, the Department has made numerous advancements in the past decade to the disaster response workforce. The establishment of the [Surge Capacity Force](#) allows the capacity for the Department to deploy its employees in support of FEMA's existing workforce for a large-scale disasters as seen this year with Hurricanes Harvey, Irma, and Maria. The Department continues to innovate and learn from other agencies, such as developing a centralized reception, staging, onward movement, and integration process and collaborating with the Corporation for National and Community Service. FEMA has made progress, but is still far from its desired workforce structure. Moving forward, FEMA is conducting research to understand the barriers that prevent it from reaching its disaster workforce structure. Additionally, it is continuing to learn from other agencies and

will take lessons learned from Hurricanes Harvey, Irma, and Maria to address this critical need in times of crisis.

Enforce and Administer Our Immigration Laws

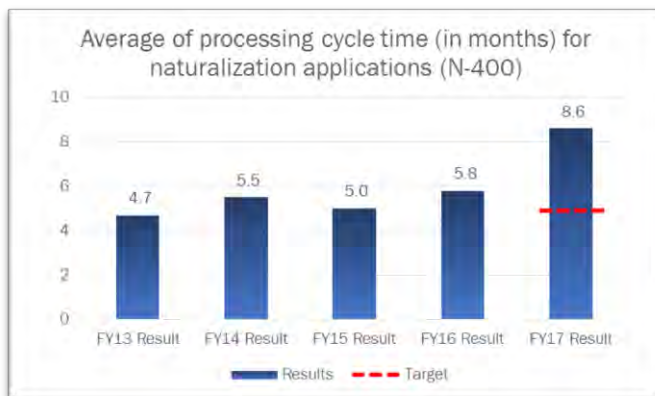
Mission 3: Enforce and Administer Our Immigration Laws

A fair and effective immigration system enriches American society, unifies families, and promotes our security. Our Nation's immigration policy plays a critical role in advancing homeland security.

Our goals for this mission are:

- Goal 3.1: Strengthen and Effectively Administer the Immigration System; and
- Goal 3.2: Prevent Unlawful Immigration.

The following highlighted measures gauge our efforts to enforce and administer our immigration laws.



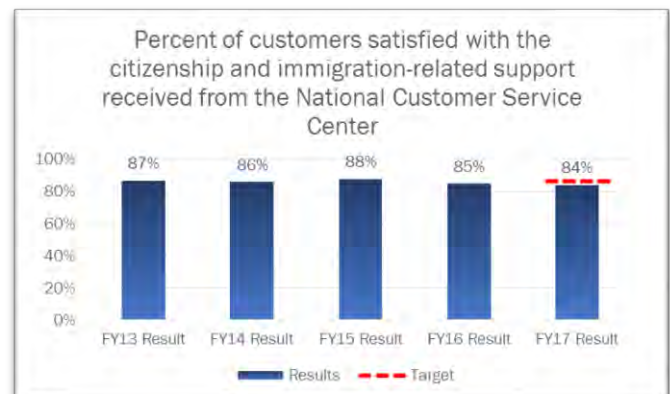
Average of processing cycle time (in months) for naturalization applications (N-400) (USCIS):

This measure assesses the program's ability to meet its published processing time goals for [N-400, Application for Naturalization](#) which is filed by lawful permanent residents to attain U.S. citizenship. Naturalization applications were 26 percent higher than projected in FY 2016 and are again higher than planned in FY 2017 by 14 percent. USCIS is continuing to shift resources and prioritize workload in order to handle its case volume. Although the cycle

time is above the target, USCIS has maintained the accuracy of N-400 decisions as validated through random sampling. USCIS continues to face capacity challenges which, combined with higher workload demands, will continue to negatively impact our cycle time. During FY 2018, USCIS will continue to balance workload to ensure national cycle time parity across each of its 88 field offices and leverage overtime and other scheduling options.

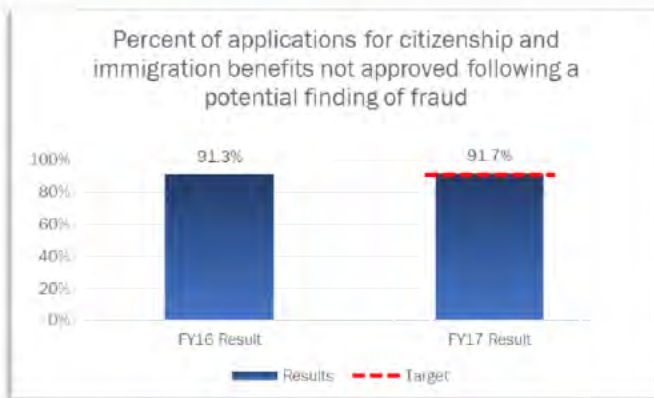
Percent of customers satisfied with the citizenship and immigration-related support received from the National Customer Service Center (USCIS): This measure gauges the overall rating of the immigration process and is based on the results from the following areas:

- 1) accuracy of information;
- 2) responsiveness to customer inquiries;
- 3) accessibility to information; and
- 4) customer satisfaction.



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The FY 2017 result for this measure is consistent with the results for the past four years; however, there has been a slight decline the past two years which is most likely due to the fluidity in the immigration policy environment making it more difficult to satisfy customers' questions in some instances. Results are still indicative of the attention [USCIS](#) has given to the customer service approach, especially given the increased demand. USCIS is constantly listening to customer feedback and taking deliberate steps to improve the level of service provided to its customers. USCIS' customer service rating is well above the Federal Government Citizen Experience Benchmark of 78 percent as reported by [American Customer Satisfaction Index](#) in their latest report published on January 31, 2017.



Percent of applications for citizenship and immigration benefits not approved following a potential finding of fraud (USCIS): This measure reflects the Department's capacity to prevent fraud, abuse, and exploitation of the immigration system, and helps identify systemic vulnerabilities that threaten its integrity. By not approving benefits to individuals potentially attempting to commit fraud, and who were not eligible for a waiver or exemption, USCIS is actively eliminating vulnerabilities, and identifying ways to continue to deter and prevent

fraud in the future. Slightly up from FY 2016 results, the initial findings of fraud were upheld 91.7 percent of the time. Initial findings of fraud are reviewed by USCIS' [Fraud Detection and National Security Directorate](#) (FDNS) before final adjudication is rendered. FDNS was created in 2004 in order to strengthen USCIS' efforts to ensure immigration benefits are not granted to individuals who pose a threat to national security or public safety, or who seek to defraud our immigration system. USCIS continues to improve communication between fraud officers and adjudicators with the assistance of improved reporting tools and investments in new technologies.



USCIS Naturalizes 15,000 New Citizens during Independence Day

On the 241st anniversary of the Declaration of Independence and the birth of the United States, 15,000 lawful permanent residents were naturalized as U.S. citizens during more than 65 naturalization ceremonies across the country. The number of new citizens naturalized on July 4, 2017 was the most in recent years. Local, state, and federal officials attended ceremonies that were held at public libraries, national parks, and museums. Teresa Nieves-Chinchilla was one of 22 people from

16 countries who were naturalized at the July Fourth naturalization ceremony in Annapolis, Maryland. Shortly before the ceremony, she had returned from a trip to her home country of Spain and in her mailbox was a long-awaited letter granting her dream—she could finally become an American citizen. Nieves-Chinchilla had been living in the U.S. for 11 years, studying space weather and solar activity at the Catholic University of America's Institute for Astrophysics and Computational Sciences, located at NASA's Goddard Space Flight Center in Greenbelt, Maryland. "This country gave me the opportunity to be a scientist, to make my life" she said.

USCIS is committed to promoting instruction and training on citizenship rights and responsibilities by offering a variety of free citizenship preparation resources for applicants, educators, and organizations that can be found online at the Citizenship Resource Center (www.uscis.gov/citizenship). Immigrant-serving organizations can register at www.uscis.gov/citizenship/organizations/civics-and-citizenship-toolkit to receive a free Civics and Citizenship Toolkit to help them develop content for classes and train staff and volunteers.

Looking Forward

The success of our Nation's immigration policy plays a critical role in advancing homeland security. The Department is focused on smart and effective enforcement of U.S. immigration laws while streamlining and facilitating the legal immigration process. Effective administration of the immigration system depends on ensuring that immigration decisions are impartial, lawful, and sound; that the immigration system is interactive and user friendly; that policy and procedural gaps are systematically identified and corrected; and that those vulnerabilities which would allow persons to exploit the system are eliminated. Below are a few initiatives that advance our efforts to achieve the Department's immigration enforcement and administration goals.

USCIS' Improvement Plans: USCIS secures America's promise as a Nation of immigrants by granting citizenship and immigration benefits, promoting awareness and understanding of citizenship, ensuring the integrity of the immigration system, and providing accurate and useful information to its customers. Over the past few years, the number of applications for benefits and benefit changes has ballooned to more than 8 million transactions per year creating a challenge to process applications in a timely fashion. The sheer volume of work has led USCIS to leverage a suite of technology tools that give customers faster and easier access to immigration information. The flagship of the newest suite of tools is [myUSCIS](#), an online one-stop shop for immigration information. The success of *myUSCIS* will be leveraged to expanded service to continue to provide value, relevance, and reach for customers and stakeholders.

Enhancing Public Safety in the Interior of the United States: [EO 13768](#), *Enhancing Public Safety in the Interior of the United States*, aims to effectively address those individuals who illegally enter the United States and those who overstay or otherwise violate the terms of their visas. Historically, surges of illegal immigration at the southern border with Mexico has placed a significant strain on federal resources and overwhelmed those agencies charged with border security and immigration enforcement. One of the provisions of the EO addresses this need by hiring 10,000 Immigration and Customs Enforcement Law Enforcement Officers (LEOs) and related support staff. The FY 2018 budget includes plans for the first 1,000 LEOs, and plans are in place to onboard the remaining staff over a multi-year horizon.

Mature and Strengthen Homeland Security

The objectives for maturing and strengthening the Department were designed to bolster key activities and functions that support the success of our strategic missions and goals. Ensuring a shared awareness and understanding of risks and threats, building partnerships, strengthening our international enterprise structure, enhancing the use of science and technology, with a strong service and management team underpin our broad efforts to ensure our front-line operators have the resources they need to fulfill the missions of the Department.

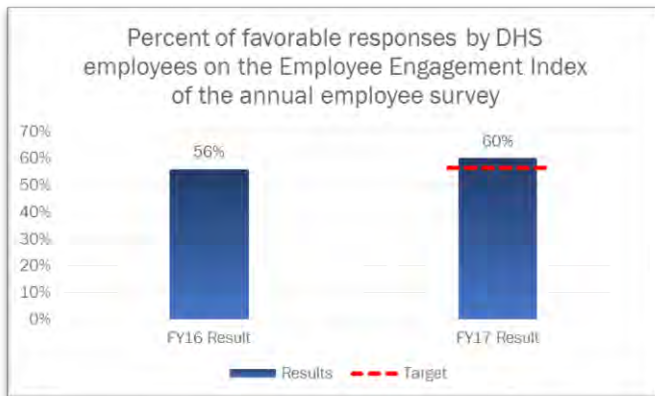
Our mature and strengthen goals are:

- Integrate Intelligence, Information Sharing, and Operations;
- Enhance Partnerships and Outreach;
- Strengthen the DHS International Affairs Enterprise in Support of Homeland Security Missions;

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- Conduct Homeland Security Research and Development;
- Ensure Readiness of Frontline Operators and First Responders; and
- Strengthen Service Delivery and Manage DHS Resources.

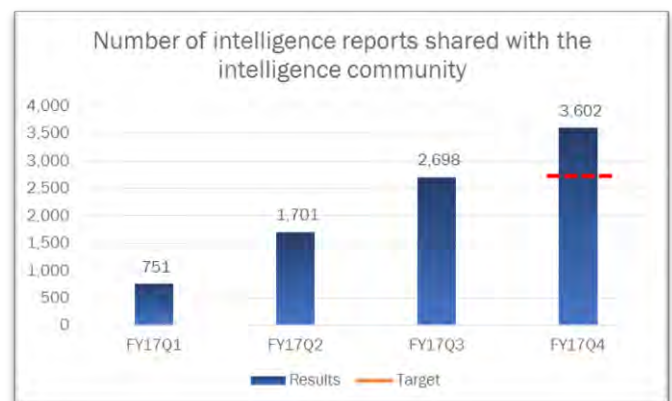
Performance measures associated with the Department's Mature and Strengthen Homeland Security focus support evaluation of the operational aspects of the headquarters offices. A small number of measures aligned to this area are displayed below, and the full set can be found in the DHS Congressional Justification Overview Chapter for the Office of the Under Secretary for Management at <https://www.dhs.gov/dhs-budget>.



Percent of favorable responses by DHS employees on the Employee Engagement Index of the annual employee survey: This measure is based on positive response rates by DHS employees to the Employee Engagement Index (EEI) of the annual Federal Employee Viewpoint Survey (FEVS) administered by the Office of Personnel Management. The EEI is comprised of three sub-indices—Leaders Lead, Supervisors, and Intrinsic Work Experiences. Based upon the 2017 FEVS data, DHS's EEI climbed to 60 percent, a four point improvement over last

year's results. This increase in EEI is the largest of any Cabinet-level agency in FY 2017. Further, DHS had the largest increase in its Global Satisfaction Index (GSI), gaining six percentage points from last year's 49 percent rating. Both USCIS and USCG have EEI scores above any of the Cabinet-level agencies, at 74 percent. Acting Secretary, Elaine Duke stated, "This progress has been no easy feat, and I am happy to see that these results reflect the tireless efforts taken throughout the Department to promote a culture of collaboration and engagement. As a Department, we have taken tremendous strides in recent years, continuously working to ensure that all employees at DHS feel supported, empowered, and equipped to successfully execute the duties and responsibilities necessary in maintaining the safety and security of the Nation."

Number of intelligence reports shared with the intelligence community: This measure reflects the DHS contribution of raw, unevaluated intelligence, to the intelligence community and the Federal Government so as to share the unique information obtained from intelligence officers in the field. In FY 2017, I&A disseminated 3,602 raw intelligence information reports, exceeding its FY 2017 goal by 34 percent. During the fiscal year, I&A was able to inform intelligence analysis, watchlisting and policy by sharing raw intelligence from a variety of DHS sources. Several key factors enabled I&A to succeed including streamlining our reporting processes and automating research techniques. These changes enhanced I&A's



ability to support our customer's needs and reduce the time it takes to identify information that has value for intelligence purposes.



Percent of Partner Organizations that agree the Federal Law Enforcement Training Centers training programs address the right skills (e.g., critical knowledge, key skills and techniques, attitudes/behaviors) needed for their officers/agents to perform their law enforcement duties (FLETC): The results of this measure provide on-going opportunities for improvements that are incorporated into FLETC's training curricula, processes, and procedures. FLETC perennially performs very well on this measure—greater than 90 percent for the past

five years—as they have a very singularly focused mission to provide career-long training to law enforcement professionals to help them fulfill their responsibilities safely and proficiently. Over the past 46 years, FLETC has grown into the Nation's largest provider of law enforcement training.

Innovative Veterans Hiring Event

The recent Executive order signed on January 25, 2017 mandates the enhancement of public safety in the interior of the United States. The Secretary has the responsibility of ensuring 10,000 additional immigration officers are hired to secure the United States borders, and enforce immigration laws. In an effort to assist with achieving this goal, and increase veteran hiring numbers, the Office of the Chief Human Capital Officer worked jointly with representatives from every DHS Component to sponsor a two-day "Continue Your Service to America" veteran recruitment and hiring event. Veterans currently make up 27.9 percent of the Department's workforce. Prior to the event, the Office of the Chief Human

Capital Officer, U.S. Citizenship and Immigration Services, Customs and Border Protection, U.S. Immigration and Customs Enforcement, delivered a series of veteran hiring event webinar learning sessions for veterans across the United States. The webinars assisted veterans with uploading their resumes to USAJOBS and making them searchable by federal agencies. More than 5,000 veterans participated in the webinars.

The hiring event held August 22-23, 2017 was attended by 2,570 veterans representing each branch of the military. As a result of the partnership between DHS Components for the event, over 600 veterans were interviewed, an estimated 125 tentative job offers were made, and approximately 375 candidates were moved to the next phase of the law enforcement hiring process. An innovative approach of interviewing, providing temporary job postings, and initiating the security process at the hiring event will reduce the time to hire these candidates. The hiring process generally takes four to six months to onboard an employee. Through the innovation of webinar learning sessions and an abbreviated temporary job posting and security process, DHS is able to acquire highly trained, and highly-talented veterans in an expedited manner to continue their service to America by supporting the DHS mission.

Looking Forward

Maturing and strengthening the Department and the entire homeland security enterprise—the collective efforts and shared responsibilities of federal, state, local, tribal and territorial, nongovernmental and private-sector partners, as well as individuals, families, and communities—is critical to the Department's success in carrying out its core missions and operational objectives.

Management's Discussion and Analysis

Formalizing the Requirements Process: DHS's maturation and challenge includes improving numerous business practices necessary for supporting front line operations that must combat evolving threats and ensuring efficient operations. An important advancement for the Department along this journey is formalizing the requirements process. Gains in this effort come from the Department wide Joint Requirements Council (JRC) and the Radiological/Nuclear Requirements Oversight Council (RNROC). The JRC provides oversight of the DHS requirements generation process by validating capability gaps, needs, and requirements based on capability analysis. The RNROC charter is to oversee the requirements process specific to radiological/nuclear detection and nuclear forensics, vetting Component requirements, and leading to the fielding of effective solutions prior to validation by the JRC. Both efforts are advancing requirements development in DHS and will ensure efficient and effective operations into the future.

Office of the Chief Human Capital Officer: DHS continues to implement a results-oriented annual planning process to support the strategic management of human capital resources. Several key department-wide initiatives will occur in the coming year to bring the human capital community together in a unity of effort. The Department will develop an enterprise approach for co-branding DHS and Components in all human capital outreach efforts including advertising, marketing, and social media. DHS will also develop a process to automate and streamline data collection to provide leadership with real-time information to evaluate the return on investment achieved related to hiring initiatives. Furthermore, the Department is creating career pathing with online resources, assessment tools, and skill-building opportunities for the 1800 job series occupations (Inspection, Investigation, Enforcement, and Compliance), Human Resources occupations (201 job series), and other select Management lines of business occupations. Lastly, DHS will leverage existing Component programs to develop a department-wide Resilience and Family Readiness Program to support families when front-line employees need to be deployed to other geographic locations.

Financial Stewardship: DHS is expending resources to raise the baseline of our security posture, necessitating the continued evolution of the business processes and systems supporting mission delivery. With the magnitude and scope of threats continuing to grow and change every day, DHS is further maturing our resource agility and efficiency. Enterprise risk management (ERM) is foundational to delivering on the DHS mission and objectives, and integrated into each phase of the planning to execution processes. A critical aspect of the Department's integrated ERM approach is the continued maturation of a robust internal control program, ensuring taxpayer funds are expended as efficiently and effectively as possible while preventing and detecting fraud, waste and abuse. Using a risk based approach and the U.S. Government Accountability Office (GAO) criteria for standards for internal control, DHS assessed its internal control maturity by Component and key deficiency category. This Internal Control Maturity Model baseline served as the Department's starting point to measure substantial progress in addressing weaknesses and sustaining a strong control environment. The Department's comprehensive enterprise approach to remediation are driving and sustaining continuous progress, as evidenced by the ability to downgrade the Property material weakness this fiscal year. DHS will continue demonstrating strong financial stewardship, executing the multi-year strategy to remediate our two remaining material weaknesses in Financial Reporting and Information Technology controls and achieve a clean Internal Control over Financial Reporting opinion.

Financial Overview

The Department's principal financial statements—Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Custodial Activity—report the financial position and results of operations of the Department, including long-term commitments and obligations. The statements have been prepared pursuant to the requirements of Title 31, United States Code, Section 3515(b), in accordance with U.S. generally accepted accounting principles and the formats prescribed by OMB. These statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity. KPMG LLP performed the audit of the Department's principal financial statements.

Financial Position

The Department prepares its Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position on an accrual basis, in accordance with generally accepted accounting principles; meaning that economic events are recorded as they occur, regardless of when cash is received or disbursed.

The Balance Sheet presents the resources owned or managed by the Department that have future economic benefits (assets) and the amounts owed by DHS that will require future payments (liabilities). The difference between the Department's assets and liabilities is the residual amount retained by DHS (net position) that is available for future programs and capital investments.

Financial Position (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Fund Balance with Treasury	\$ 71,466	\$ 58,997	\$ 12,469	21%▲
Property, Plant, and Equipment	21,887	21,220	667	3%▲
Other Assets	18,358	17,413	945	5%▲
Total Assets	111,711	97,630	14,081	14%▲
Federal Employee and Veterans' Benefits	58,715	58,028	687	1%▲
Debt	30,440	23,017	7,423	32%▲
Accounts Payable	4,278	3,868	410	11%▲
Deferred Revenue and Advances	5,799	3,795	2,004	53%▲
Insurance Liabilities	12,331	3,196	9,135	>100%▲
Accrued Payroll	2,276	2,114	162	8%▲
Other Liabilities	7,654	7,492	162	2%▲
Total Liabilities	121,493	101,510	19,983	20%▲
Total Net Position	(9,782)	(3,880)	(5,902)	<-100%▼
Total Liabilities and Net Position	\$ 111,711	\$ 97,630	\$ 14,081	14%▲

Results of Operations (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Gross Cost	\$ 80,683	\$ 69,404	\$ 11,279	16%▲
Less: Revenue Earned	(13,786)	(14,499)	713	-5%▼
Net Cost Before Gains and Losses on Assumption Changes	66,897	54,905	11,992	22%▲
Gains and Losses on Assumption Changes	(494)	234	(728)	<-100%▼
Total Net Cost	\$ 66,403	\$ 55,139	\$ 11,264	20%▲

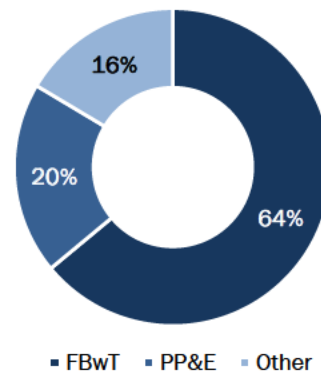
Management's Discussion and Analysis

Assets – What We Own and Manage

Assets represent amounts owned or managed by the Department that can be used to accomplish its mission.

The Department's largest asset is *Fund Balance with Treasury (FBwT)*, which consists primarily of appropriated, revolving, trust, deposit, receipt, and special funds remaining at the end of the fiscal year.

Property, Plant, and Equipment (PP&E) is the second largest asset, and include buildings and facilities, vessels, aircraft, construction in progress, and other equipment. In acquiring these assets, the Department either spent resources or incurred a liability to make payment at a future date; however, because these assets should provide future benefits to help accomplish the DHS mission, the Department reports these items as assets rather than expenses.



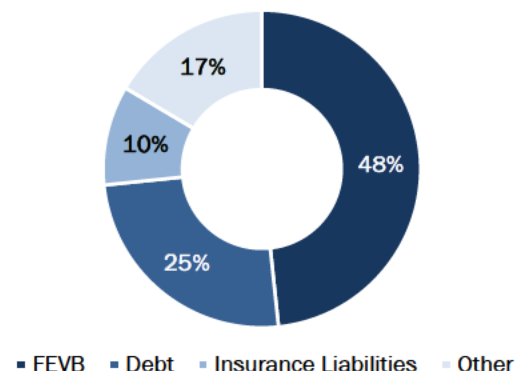
Other Assets includes items such as investments, accounts receivable, cash and other monetary assets, taxes, duties and trade receivables, direct loans, and inventory and related property.

As of September 30, 2017, the Department had \$111.7 billion in assets, representing a \$14.1 billion increase from FY 2016. The majority of this change is due to the increase in FEMA's FBwT to support disaster relief efforts for the significant hurricanes that struck the United States this past year.

Liabilities – What We Owe

Liabilities are the amounts owed to the public or other federal agencies for goods and services provided but not yet paid for; to DHS employees for wages and future benefits; and for other liabilities.

The Department's largest liability is for *Federal Employee and Veterans' Benefits (FEVB)*. The Department owes these amounts to current and past civilian and military personnel for pension and other post-employment benefits. The liability also includes medical costs for approved workers' compensation cases. For more information, see Note 16 in the Financial Information section. This liability is not covered by current budgetary resources, and the Department will use future appropriations to cover these liabilities (see Note 14 in the Financial Information section).



Debt is the second largest liability, and results from Treasury loans and related interest payable to fund FEMA's NFIP and Disaster Assistance Direct Loan Program. Given the current premium rate structure, FEMA will not be able to pay its debt from the premium revenue alone;

therefore, legislation will need to be enacted to provide funding to repay the Treasury. This is discussed further in Note 15 in the Financial Information section.

Insurance Liabilities represent an estimate of NFIP claim activity based on the loss and loss adjustment expense factors inherent to the NFIP insurance underwriting operations, including trends in claim severity and frequency.

Other Liabilities include amounts owed to other federal agencies and the public for goods and services received by the Department, amounts received by the Department for goods or services that have not been fully rendered, unpaid wages and benefits for current DHS employees, and amounts due to the Treasury's general fund, environmental liabilities, refunds and drawbacks, and other.

As of September 30, 2017, the Department reported approximately \$121.5 billion in total liabilities. Total liabilities increased by approximately \$20 billion in FY 2017. FEMA's disaster response costs and related increases in FEMA's debt to Treasury along with projected future flood claims drives most of this increase in liabilities.

Net Position

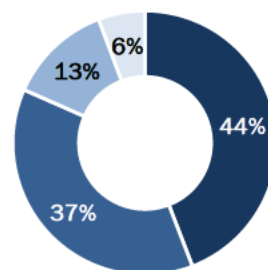
Net position represents the accumulation of revenue, expenses, budgetary, and other financing sources since inception, as represented by an agency's balances in unexpended appropriations and cumulative results of operations on the Statement of Changes in Net Position. Financing sources increase net position and include, but are not limited to, appropriations, user fees, and excise taxes. The net costs discussed in the section below as well as transfers to other agencies decrease net position. The Department's total net position is \$(9.8) billion because of significant expenses related to NFIP, as well as pension liabilities for USCG and USSS, which are funded for the current year only. Total net position decreased approximately \$6 billion from FY 2016, in large part because of the cost associated with hurricane relief efforts.

Results of Operations

The Department operates under one unified mission: *With honor and integrity, we will safeguard the American people, our homeland, and our values.* The [FY 2014-2018 Strategic Plan](#) further details the Department's missions and focus area, which are grouped into four major missions in the Statement of Net Cost and related footnotes to allow the reader of the Statement of Net Cost to clearly see how resources are spent towards the common goal of a safe, secure, and resilient Nation.

Net cost of operations before gains and losses represents the difference between the costs incurred and revenue earned by DHS programs. The Department's net cost of operations before gains and losses increased by approximately \$11 billion in FY 2017. DHS incurred a significantly larger gross cost this year to support response and recovery efforts related to the recent hurricanes.

During FY 2017, the Department earned approximately \$13.8 billion in exchange revenue.



- Foster a Safe and Secure Homeland
- Strengthen National Preparedness and Resilience
- Enforce and Administer Our Immigration Laws
- Mature and Strengthen Homeland Security

Management's Discussion and Analysis

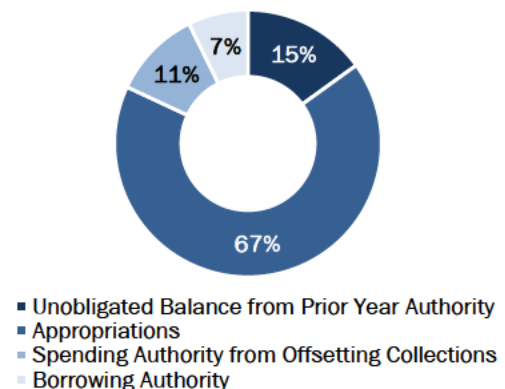
Exchange revenue arises from transactions in which the Department and the other party receive value and that are directly related to departmental operations. The Department also collects non-exchange duties, taxes, and fee revenue on behalf of the Federal Government. This non-exchange revenue is presented in the Statement of Custodial Activity or Statement of Changes in Net Position, rather than the Statement of Net Cost.

Budgetary Resources

Budgetary accounting principles require recognition of the obligation of funds according to legal requirements, which in many cases happens prior to the transaction under accrual basis. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls over the use of federal funds. The budget represents our plan for efficiently and effectively achieving the strategic objectives to carry out our mission and to ensure that the Department manages its operations within the appropriated amounts using budgetary controls.

Sources of Funds (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Unobligated Balance from Prior Year Authority	\$ 15,341	\$ 18,113	\$ (2,772)	-15% ▼
Appropriations	68,224	58,644	9,580	16% ▲
Spending Authority from Offsetting Collections	10,971	11,355	(384)	-3% ▼
Borrowing Authority	7,427	1	7,426	>100% ▲
Total Budgetary Authority	\$ 101,963	\$ 88,113	\$ 13,850	16% ▲

The Department's budgetary resources were approximately \$102 billion for FY 2017. The authority was derived from \$15.4 billion in authority carried forward from FY 2016, appropriations of \$68.2 billion, \$11 billion in collections, and \$7.4 billion in borrowing authority. Budgetary resources increased approximately \$14 billion from FY 2016. FEMA received a supplemental appropriation to respond to the significant disasters at the end of the fiscal year. Additionally, FEMA borrowed \$7.4 billion in FY 2017 to pay insurance claims against the NFIP. Both of these served to increase the Department's budget authority significantly in FY 2017.



Of the total budget authority available, the Department incurred a total of \$81.9 billion in obligations from salaries and benefits, purchase orders placed, contracts awarded, or similar transactions.

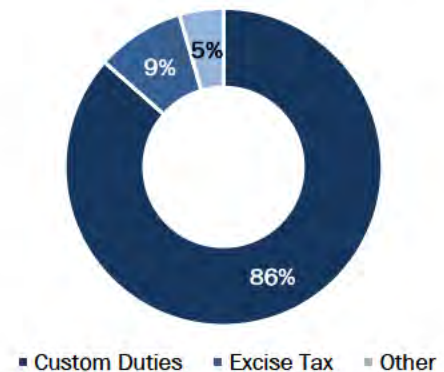
Custodial Activities

The Statement of Custodial Activity is prepared using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

Cash Collections (\$ in millions)	FY 2017	FY 2016	\$ Change	% Change
Cash Collections	\$ 34,835	\$ 35,142	\$ (307)	-1% ▼
Excise Tax	3,631	3,430	201	6% ▲
Other	1,810	1,684	126	7% ▲
Total Cash Collections	\$ 40,276	\$ 40,256	\$ 20	0% ▲

Custodial activity includes the revenue collected by the Department on behalf of others, and the disposition of that revenue to the recipient entities. Non-exchange revenue is either retained by the Department to further its mission or transferred to Treasury's general fund and other federal agencies.

Custom duties collected by CBP account for 86 percent of total cash collections. The remaining 14 percent is comprised of excise taxes, user fees, and various other fees.



Other Key Regulatory Requirements

For a discussion on DHS's compliance with the Prompt Payment Act, and Debt Collection Improvement Act of 1996, see the Other Information section.

Management's Discussion and Analysis

Secretary's Assurance Statement

November 14, 2017



The Department of Homeland Security management team is responsible for meeting the objectives of the Federal Managers' Financial Integrity Act of 1982 (FMFIA) by managing risks and maintaining effective internal control over three internal control objectives: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations. The Department conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the Department can provide reasonable assurance that internal control over operations, reporting, and compliance were operating effectively as of September 30, 2017

except for the disclosures noted in the subsequent sections.

Pursuant to the DHS Financial Accountability Act (FAA), the Department is required to obtain an opinion on its internal control over financial reporting. The Department conducted its assessment of the effectiveness of internal control over financial reporting in accordance with Appendix A of OMB Circular A-123 and Government Accountability Office (GAO) Standards for Internal Control. Based on the results of this assessment, the Department can provide reasonable assurance that its internal control over financial reporting was designed and operating effectively, with the exception of the following two areas: 1) Financial Reporting and 2) Information Technology Controls and Systems Functionality, where material weaknesses have been identified and remediation is in process, as further described in the *Management Assurances* section of the Agency Financial Report.

In addition, the material weakness related to Information Technology (IT) Controls and Systems Functionality stated above affects the Department's ability to fully comply with the Federal Financial Management Improvement Act of 1996 (FFMIA) financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA.

As a result of our assessments conducted, I am pleased to report that the Department has made progress in enhancing its internal controls and financial management program and continues to plan for additional improvements going forward.

Sincerely,

A handwritten signature in dark ink, appearing to read 'E. Duke', with a long, sweeping horizontal line extending to the right.

Elaine C. Duke
Acting Secretary of Homeland Security

Management Assurances

DHS management is responsible for establishing, maintaining, and assessing internal control to provide reasonable assurance that the objectives of the Federal Managers' Financial Integrity Act of 1982 (31 United States Code 3512, Sections 2 and 4) and the Federal Financial Management Improvement Act of 1996 (Pub. L. 104-208), as prescribed by the GAO Standards for Internal Control in the Federal Government known as the Green Book, are met. In addition, the Department of Homeland Security Financial Accountability Act (Pub. L. 108-330) requires a separate management assertion and an audit opinion on the Department's internal control over financial reporting.

In FY 2014, GAO revised the Green Book effective beginning FY 2016 and for the Federal Managers' Financial Integrity Act reports covering that year. The Green Book provides managers the criteria for an effective internal control system, organized around internal control components, principles, and attributes. In FY 2016, the OMB revised Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. The revisions emphasize the integration of risk management and internal controls within existing business practices across an Agency. Updates to the Circular were effective in FY 2016, with the implementation of enterprise risk management requirements effective in FY 2017. Circular A-123, Appendix A, *Internal Control over Financial Reporting*, remains in effect.

Federal Managers' Financial Integrity Act, Section 2

Since Circular No. A-123 became effective 2006, DHS has worked extensively to establish, maintain, and assess internal controls. The Department has made considerable improvements in internal controls over operations, reporting, and compliance through the extensive work of staff and management at Headquarters and in the Components.

In accordance with Circular A-123, the Department performs assessments over the effectiveness of its internal controls. The results of these assessments provide management with an understanding of the effectiveness and efficiency of programmatic operations, reliability of financial reporting, and compliance with laws and regulations. Management performs an analysis on the pervasiveness and materiality over any identified deficiencies to determine their impact. Based on the results of these assessments, the Secretary provides assurances over the Department's internal controls in the annual assurance statement. Any deficiency identified as a material weakness within internal control over financial reporting is defined as a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. To identify material weaknesses and non-compliance, management used the following criteria:

- Significant enough to report outside the Agency as a material weakness;
- Impacts the operating effectiveness of Entity-Level Controls;
- Impairs fulfillment of essential operations or mission;
- Deprives the public of needed services;
- Significantly weakens established safeguards against waste, loss, unauthorized use or misappropriation of funds, property, other assets, or conflicts of interest;
- Substantial non-compliance with laws and regulations; and

Management's Discussion and Analysis

- Financial management systems conformance to government-wide systems requirements.

The Department instituted an Accountability Structure, which includes a Senior Management Council (SMC), the Risk Management and Assurance (RM&A) Division, and a Senior Assessment Team (SAT). The SMC approves the level of assurances for the Secretary's consideration and is comprised of the Department's Under Secretary for Management, Chief Financial Officer, Chief Readiness Support Officer, Chief Human Capital Officer, Chief Information Officer, Chief Information Security Officer, Chief Security Officer, and Chief Procurement Officer.

The RM&A Division seeks to integrate and coordinate internal control assessments with other internal control related activities and incorporates results from all of the Department's lines of business to address cross-cutting internal control issues. Finally, the SAT, led by the Chief Financial Officer and overseen by RM&A, is comprised of senior-level financial managers assigned to carry out and direct Component-level internal control over financial reporting assessments.

Component Senior Leadership provided assurance statements to the SAT that serve as the primary basis for the Secretary's assurance statements. These assurance statements are also based on information gathered from various sources including management-initiated internal control assessments, program reviews, and evaluations. In addition, these statements consider the results of reviews, audits, inspections, and investigations performed by the Department's Office of Inspector General (OIG) and GAO.

Department of Homeland Security Financial Accountability Act

Pursuant to the DHS FAA, the Department must obtain an opinion over internal control over financial reporting. Using GAO Standards for Internal Control and Circular A-123 as criteria, the Department has demonstrated continued progress in reducing its financial material weaknesses and maintaining progress over sustained processes through routine internal control testing. This robust find, fix, test and assert assessment strategy will support sustainment of the financial statement opinion and achievement of an opinion over internal control over financial reporting in the near future.

In FY 2017, the Department reduced the severity of property, plant and equipment to a significant deficiency due to hard work and demonstrated progress evidenced through the USCG and NPPD remediation and sustained efforts by the remaining components. This reduces the Department's number of material weaknesses from three to two, where 1) financial reporting and 2) IT Controls and System Functionality material weaknesses will remain. The Department remains dedicated to fully remediating financial reporting and IT system security and functionality weaknesses. A summary of corrective actions are provided in the tables below.

Table 1: Internal Control over Financial Reporting Corrective Actions

Material Weakness	Component	Year Identified	Target Correction Date
	USCG, NPPD, FEMA, USSS, and CBP	FY 2003	FY 2018
Financial Reporting	USCG, NPPD, FEMA, USSS, and CBP experienced challenges with deficiencies in multiple financial management areas. These issues may include a combination of budgetary accounting, trading partner reconciliations, journal entries, third party service monitoring, and lack of compensating controls to mitigate system limitations.		
Corrective Actions	The DHS CFO will continue to support Components in implementing corrective actions to establish effective financial reporting control activities based on component contribution to the weakness area and risk. One of the primary financial reporting condition is due to a lack of integrated financial systems at the USCG. The Department and USCG will continue to focus on implementing and executing interim manual compensating measures, while pursuing system enhancements. In addition, the Department will continue to prioritize remediation efforts based on risk and components will implement targeted corrective actions to resolve the overall Department financial reporting conditions.		
Material Weakness	Component	Year Identified	Target Correction Date
	All DHS Components	FY 2003	FY 2019
IT Controls and System Functionality	The Department internal control assessment identified IT Controls and System Functionality as a material weakness due to inherited control deficiencies surrounding general computer and application controls. The Federal Information Security Management Act (FISMA) mandates that federal agencies maintain IT security programs in accordance with OMB and National Institute of Standards and Technology guidance. In addition, the Department's financial systems do not fully comply with the FFMIA.		
Corrective Actions	The DHS CFO and CIO will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems. Remediation efforts will occur across the Department with a risk-based approach to correcting root-cause weaknesses across all CFO designated systems.		

Federal Financial Management Improvement Act (FFMIA)

FFMIA requires federal agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. A financial management system includes an agency's overall financial operation, reflecting the people, processes, and technology to capture, classify, summarize, and report data in a meaningful manner to support business decisions.

We assess our financial management systems annually for compliance with the requirements of Appendices A and D to OMB Circular A-123 and other federal financial system requirements. In addition, we assess available information from audit reports and other relevant and appropriate sources, such as FISMA compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance.

Based on the results of our overall assessment, the material weakness related to Information Technology Controls and Systems Functionality affects the Department's ability to fully comply with financial management system requirements, and therefore the Department is also reporting a noncompliance with FFMIA. The Department is actively engaged to correct the material weakness through significant compensating controls while undergoing system improvement efforts. The outcome of system improvement efforts will efficiently enable the

Management's Discussion and Analysis

Department to comply with government-wide requirements and reduce manual compensating controls.

Table 2: FFMIA Non-compliance Corrective Actions

Non-Compliance	Component	Year Identified	Target Correction Date
	All DHS Components	FY 2003	FY 2019
FFMIA Non-compliance	DHS does not substantially comply with FFMIA primarily due to lack of compliance with financial system requirements as disclosed as material weakness in IT Controls and System functionality. USCG, CBP, and ICE noted that certain key systems are unable to produce transaction level activity that reconciles at the USSGL-level. USCG also reported a lack of compliance as its financial and mixed systems do not allow for financial statements and budgets to be prepared, executed, and reported fully in accordance with the requirements prescribed by the OMB, Treasury, and the Federal Accounting Standards Advisory Board.		
Corrective Actions	The DHS CFO, CIO, and Components will support the Components in the design and implementation of internal controls in accordance with DHS 4300A, Sensitive Systems Handbook, Attachment R: Compliance Framework for CFO Designated Financial Systems. In addition, DHS CFO and Components will continue to design, document, and implement compensating controls to reduce the severity of system security internal controls and functionality limitations.		

Digital Accountability and Transparency Act of 2014

In addition to performing an analysis of the Department's compliance with FMFIA, FFMIA, DHS FAA, and applicable laws and regulations, management also considered its compliance with recently enacted laws. On May 9, 2014, the President signed the Digital Accountability and Transparency Act of 2014 (DATA Act) into law. By May of 2017 the law required the DHS to comply with the requirements outlined in the Act in accordance with guidance received from the Treasury and OMB. DHS will be required to report obligations by appropriation, program, object class, and award. This effort required enterprise-wide coordination and collaboration to modify business processes and systems to ensure full compliance. In FY 2016 the Department developed the initial technical solution and conducted two pilots successfully demonstrating the ability to link financial and award data. In August 2016, DHS submitted the DHS Implementation Plan Update to OMB as required. In April 2017, DHS successfully certified and submitted its first quarterly spending data for posting on USASpending.gov. In FY 2017, DHS continued to produce, test, and validate data improving the quality to ensure timely and accurate data reporting to meet and comply with the DATA Act requirements.

Federal Information Security Modernization Act of 2014 (FISMA)

FISMA provides a framework for ensuring effectiveness of security controls over information resources that support federal operations and assets, and provides a statutory definition for information security.

The Office of Inspector General (OIG) conducts an annual assessment of the DHS information security program in accordance with FISMA to determine whether DHS's information security program is adequate, effective, and complies with FISMA requirements. Per the FY 2016 OIG FISMA audit report, "Evaluation of DHS' Information Security Program for Fiscal Year 2016," the OIG identified four recommendations for the Department to improve Federal information security. As a result of corrective actions taken prior to June 2017, the OIG has closed three of the recommendations from the FY 2016 FISMA audit. The final OIG recommendation has been noted as resolved but will remain open pending receipt of DHS provided evidence.

The FY 2017 OIG FISMA audit is pending completion at the time of this report's issuance. As such, the audit recommendations and Management's response to the recommendations will be provided when made available.

Financial Management Systems

Pursuant to the Chief Financial Officers Act of 1990, the DHS CFO is responsible for developing and maintaining agency accounting and financial management systems to ensure systems comply with applicable accounting principles, standards, and requirements and with internal control standards. As such, the DHS CFO oversees and coordinates all financial system modernization efforts.

DHS has established a Joint Program Management Office (JPMO) to oversee Financial Systems Modernization (FSM) program management, priorities, risk, and cost and schedule. Our approach to modernizing financial management systems across the Department, includes:

- Expanding business intelligence and standardizing data across Components to quickly provide enterprise-level reporting;
- Targeting investments in financial systems modernization in a cost-effective manner and minimizing duplication in infrastructure in accordance with emerging technologies and guidance;
- Prioritizing essential system modernizations for the Components with the most critical need and projected greatest potential return on investment for efficiency and business process improvements; and
- Strengthening existing system controls—DHS is not depending on FSM efforts to achieve a “clean” internal control opinion or FFMIA compliance. We are addressing IT control weaknesses in high impact CFO designated systems through a holistic, multi-year remediation and internal control strategy, including compensating and complimentary controls.

As a federal shared service provider, the Department of the Interior (DOI), Interior Business Center (IBC) implemented financial management system solution for DNDO at the IBC data center in FY 2016 and additional development was continuing to eventually migrate TSA and USCG onto the new solution when fully developed to meet their requirements. In March 2017, it was determined that DHS would transition the DNDO, TSA, and USCG FSM initiatives out of the DOI IBC. DHS has made a significant investment in the current financial management solution and is migrating this solution to an alternative hosting environment to complete integration and implementation. This system solution delivers a standardized baseline for DNDO, TSA, and USCG, with increased functionality and integration for DNDO. DHS is leveraging the lessons learned from this shared services implementation, reducing risk in future migrations through deliberative approaches to resource management, business process re-engineering, risk management, change management, and scheduling rigor and oversight.

In addition, USSS is on track to move to the next version of their current accounting software, Oracle Federal Financials, expected to be complete in FY 2018. Other FSM efforts are in the early stages, including FEMA's financial system, flood insurance, and grants management modernization.

Management's Discussion and Analysis

Performance Accountability

Based on our internal controls evaluations, the performance information reported for the Department in our performance and accountability reports are complete and reliable, except those noted in our Annual Performance Report. The Department's performance and accountability reports for this and previous years are available on our public website: <http://www.dhs.gov/performance-accountability>.

Financial Information



The *Financial Information* section demonstrates our commitment to effective stewardship over the funds DHS receives to carry out its mission, including compliance with relevant financial management requirements. It includes the Department's *Financial Statements*—the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, Statements of Budgetary Resources and Statements of Custodial Activity—as well as the accompanying *Notes to the Financial Statements*. It also includes the *Independent Auditors' Report* on the Department's Financial Statements and accompanying Notes, provided by KPMG LLP.

Financial Information

Message from the Chief Financial Officer

November 14, 2017



I am honored to join Acting Secretary Elaine Duke in presenting the Agency Financial Report (AFR) for Fiscal Year (FY) 2017.

The AFR is our Department's principal statement of accountability to the American people, the United States Congress, and the President of the United States. Our Department's commitment to transparency and accountability continues to be absolute, as is evidenced in the Department earning its fifth consecutive unmodified (clean) audit opinion on our financial statements for FY 2017.

DHS is the only agency in the Federal Government required to obtain an opinion on internal control over financial reporting. We are continuing to mature and strengthen our internal controls, as evidenced by our progress in remediating our material weaknesses. Despite complex operational missions, diverse processes and legacy systems across the Department, we have implemented enterprise-wide strategies to standardize controls over our financial and related data. With the strategic focus of all of our Components, and notably the U.S. Coast Guard, this year DHS was successful in achieving a downgrade of our property material weakness. We will be leveraging our multi-year strategy and past successes, along with unified prioritization and collaboration across the Department, to address the two remaining material weaknesses in financial reporting and information technology in order to achieve an unmodified internal control opinion.

Whether sustaining a clean opinion on our financial statements or improving internal controls, the value of transparent and accurate financial reporting cannot be stressed enough. In fact, DHS takes very seriously its responsibility to the American people to secure their confidence that their dollars are properly accounted for in support of securing and protecting resources to protect their homeland.

We look forward to continuing our successes and rising to the challenges that the DHS financial management community is happy to accept, year after year, because we are committed to doing things better.

Thank you for allowing us to serve the American people. As responsible stewards of taxpayer dollars, it is our honor and privilege to ensure financial excellence, always, in everything we do.

Sincerely,

Stacy Marcott
Acting Chief Financial Officer

Introduction

The principal financial statements included in this report are prepared pursuant to the requirements of the Government Management Reform Act of 1994 (Pub. L. 103-356) and the Chief Financial Officers Act of 1990 (Pub. L. 101-576), as amended by the Reports Consolidation Act of 2000 (Pub. L. 106-531), and the Department of Homeland Security Financial Accountability Act of 2004 (Pub. L. 108-330). Other requirements include the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, as amended. The responsibility for the integrity of the financial information included in these statements rests with the management of DHS. KPMG LLP performed the audit of the Department's principal financial statements. The Independent Auditors' Report accompanies the principal financial statements.

The Department's principal financial statements consist of the following:

- The Consolidated **Balance Sheets** present those resources owned or managed by the Department of Homeland Security that represent future economic benefits (assets), amounts owed by DHS that will require payments from those resources or future resources (liabilities), and residual amounts retained by DHS comprising the difference (net position) as of September 30, 2017 and 2016.
- The Consolidated **Statements of Net Cost** present the net cost of DHS operations for the fiscal years that ended on September 30, 2017 and 2016. DHS net cost of operations is the gross cost incurred by DHS less any exchange revenue earned from DHS activities and any gains or losses from assumption changes on pensions, other retirement benefits (ORB), and other post-employment benefits (OPEB).
- The Consolidated **Statements of Changes in Net Position** present the change in the Department's net position resulting from the net cost of DHS operations, budgetary financing sources, and other financing sources for the fiscal years that ended on September 30, 2017 and 2016.
- The Combined **Statements of Budgetary Resources** present how and in what amounts budgetary resources were made available to the Department during fiscal years 2017 and 2016, the status of these resources at September 30, 2017 and 2016, the changes in the obligated balance, and outlays of budgetary resources for the fiscal years that ended on September 30, 2017 and 2016.
- The Consolidated **Statements of Custodial Activity** present the disposition of custodial revenue collected and disbursed by the Department on behalf of other recipient entities for the fiscal years that ended on September 30, 2017 and 2016.
- The **Notes to the Financial Statements** provide detail and clarification for amounts on the face of the financial statements as of September 30, 2017 and 2016.

Financial Information

Financial Statements

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2017 and 2016
(In Millions)

	<u>2017</u>	<u>2016</u>
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 71,466	\$ 58,997
Investments, Net (Note 5)	7,614	8,060
Accounts Receivable (Note 6)	317	290
Other (Note 13)	1,003	543
Total Intragovernmental	\$ 80,400	\$ 67,890
 Cash and Other Monetary Assets (Note 4)	 308	 193
Accounts Receivable, Net (Note 6)	3,405	2,629
Taxes, Duties, and Trade Receivables, Net (Note 7)	2,980	3,042
Direct Loans, Net (Note 8)	33	29
Inventory and Related Property, Net (Note 9)	2,008	1,936
General Property, Plant, and Equipment, Net (Note 11)	21,887	21,220
Other (Note 13)	690	691
TOTAL ASSETS	<u>\$ 111,711</u>	<u>\$ 97,630</u>
 Stewardship Property, Plant, and Equipment (Note 12)		
 LIABILITIES (Note 14)		
Intragovernmental		
Accounts Payable	\$ 2,018	\$ 1,827
Debt (Note 15)	30,440	23,017
Other (Note 18)		
Due to the General Fund	3,020	3,098
Accrued FECA Liability	407	402
Other	507	495
Total Intragovernmental	\$ 36,392	\$ 28,839
 Accounts Payable	 2,260	 2,041
Federal Employee and Veterans' Benefits (Note 16)	58,715	58,028
Environmental and Disposal Liabilities (Note 17)	437	454
Other (Notes 18, 19, 20, and 21)		
Accrued Payroll and Benefits	2,276	2,114
Deferred Revenue and Advances from Others	5,799	3,795
Insurance Liabilities	12,331	3,196
Refunds and Drawbacks	202	190
Other	3,081	2,853
Total Liabilities	<u>\$ 121,493</u>	<u>\$ 101,510</u>

Commitments and Contingencies (Note 21)

(Continued)

Department of Homeland Security
Consolidated Balance Sheets
As of September 30, 2017 and 2016
(In Millions)

	<u>2017</u>	<u>2016</u>
NET POSITION		
Unexpended Appropriations		
Unexpended Appropriations-Other Funds (Combined)	\$ 50,872	\$ 45,027
Cumulative Results of Operations		
Cumulative Results of Operations-Funds from Dedicated Collections (Note 22) (Combined)	(25,315)	(13,840)
Cumulative Results of Operations-Other Funds (Combined)	(35,339)	(35,067)
Total Net Position	<u>\$ (9,782)</u>	<u>\$ (3,880)</u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 111,711</u></u>	 <u><u>\$ 97,630</u></u>

The accompanying notes are an integral part of these statements.

Financial Information

Department of Homeland Security
Consolidated Statement of Net Cost
For the Years Ended September 30, 2017 and 2016
(In Millions)

Major Missions (Note 23)	2017	2016
<i>Foster a Safe and Secure Homeland</i>		
Gross Cost	\$ 35,195	\$ 35,061
Less Earned Revenue	(5,653)	(5,909)
Net Cost	29,542	29,152
<i>Enforce and Administer Our Immigration Laws</i>		
Gross Cost	11,601	11,133
Less Earned Revenue	(3,108)	(3,923)
Net Cost	8,493	7,210
<i>Strengthen National Preparedness and Resilience</i>		
Gross Cost	29,478	19,304
Less Earned Revenue	(4,434)	(4,553)
Net Cost	25,044	14,751
<i>Mature and Strengthen Homeland Security</i>		
Gross Cost	4,409	3,906
Less Earned Revenue	(591)	(114)
Net Cost	3,818	3,792
<i>Total Department of Homeland Security</i>		
Gross Cost	80,683	69,404
Less Earned Revenue	(13,786)	(14,499)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB		
Assumption Changes	66,897	54,905
(Gain)/Loss on Pension, ORB, or OPEB Assumption		
Changes (Note 16)	(494)	234
NET COST OF OPERATIONS	\$ 66,403	\$ 55,139

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2017
(In Millions)

	2017			
	Combined Funds from Dedicated Collections	Combined All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	\$ (13,840)	\$ (35,067)	\$ -	\$ (48,907)
Budgetary Financing Sources				
Appropriations Used	-	49,368	-	49,368
Non-exchange Revenue	2,468	1	-	2,469
Donations and Forfeitures of Cash and Cash Equivalents	4	-	-	4
Transfers In/(Out) without Reimbursement	(3,457)	3,036	-	(421)
Other Financing Sources				
Donations and Forfeitures of Property	-	20	-	20
Transfers In/(Out) without Reimbursement	(89)	155	-	66
Imputed Financing	176	1,175	157	1,194
Other	3,334	(1,378)	-	1,956
Total Financing Sources	2,436	52,377	157	54,656
Net Cost of Operations	(13,911)	(52,649)	(157)	(66,403)
Net Change	(11,475)	(272)	-	(11,747)
Cumulative Results of Operations	(25,315)	(35,339)	-	(60,654)
Unexpended Appropriations				
Beginning Balance	-	45,027	-	45,027
Budgetary Financing Sources				
Appropriations Received	-	57,168	-	57,168
Appropriations Transferred In/(Out)	-	(9)	-	(9)
Other Adjustments	-	(1,946)	-	(1,946)
Appropriations Used	-	(49,368)	-	(49,368)
Total Budgetary Financing Sources	-	5,845	-	5,845
Total Unexpended Appropriations	-	50,872	-	50,872
NET POSITION	\$ (25,315)	\$ 15,533	\$ -	\$ (9,782)

The accompanying notes are an integral part of these statements.

Financial Information

Department of Homeland Security
Consolidated Statement of Changes in Net Position
For the Year Ended September 30, 2016
(In Millions)

	2016			
	Combined Funds from Dedicated Collections	Combined All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations				
Beginning Balances	\$ (13,577)	\$ (33,973)	\$ -	\$ (47,550)
Budgetary Financing Sources				
Appropriations Used	-	47,247	-	47,247
Non-exchange Revenue	3,293	2	-	3,295
Donations and Forfeitures of Cash and Cash Equivalents	1	-	-	1
Transfers In/(Out) without Reimbursement	(3,358)	3,457	-	99
Other Financing Sources				
Donations and Forfeitures of Property	-	1	-	1
Transfers In/(Out) without Reimbursement	(105)	104	-	(1)
Imputed Financing	175	1,340	182	1,333
Other	3,211	(1,404)	-	1,807
Total Financing Sources	3,217	50,747	182	53,782
Net Cost of Operations	(3,480)	(51,841)	(182)	(55,139)
Net Change	(263)	(1,094)	-	(1,357)
Cumulative Results of Operations	(13,840)	(35,067)	-	(48,907)
Unexpended Appropriations				
Beginning Balances	-	46,485	-	46,485
Budgetary Financing Sources				
Appropriations Received	-	48,577	-	48,577
Appropriations Transferred In/(Out)	-	(659)	-	(659)
Other Adjustments	-	(2,129)	-	(2,129)
Appropriations Used	-	(47,247)	-	(47,247)
Total Budgetary Financing Sources	-	(1,458)	-	(1,458)
Total Unexpended Appropriations	-	45,027	-	(45,027)
NET POSITION	\$ (13,840)	\$ 9,960	\$ -	\$ (3,880)

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(In Millions)

	2017		2016	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES				
Unobligated Balance Brought Forward, October 1	\$ 13,456	\$ 22	\$ 16,169	\$ 53
Recoveries of Prior Year Unpaid Obligations	2,433	15	2,531	13
Other Changes in Unobligated Balance	(584)	(1)	(652)	(1)
Unobligated Balance from Prior Year Budget Authority, Net	15,305	36	18,048	65
Appropriations	68,224	-	58,644	-
Borrowing Authority (Note 25)	7,425	2	-	1
Spending Authority from Offsetting Collections	10,971	-	11,366	(11)
TOTAL BUDGETARY RESOURCES	\$ 101,925	\$ 38	\$ 88,058	\$ 55
STATUS OF BUDGETARY RESOURCES				
New Obligations and Upward Adjustments (Note 24)	\$ 81,858	\$ 29	\$ 74,602	\$ 33
Unobligated Balance, End Of Year				
Apportioned, Unexpired	16,587	9	10,263	22
Exempt from Apportionment, Unexpired	2	-	2	-
Unapportioned, Unexpired	1,857	-	1,538	-
Unexpired Unobligated Balance, End of Year	18,446	9	11,803	22
Expired Unobligated Balance, End of Year	1,621	-	1,653	-
Total Unobligated Balance, End of Year	20,067	9	13,456	22
TOTAL BUDGETARY RESOURCES	\$ 101,925	\$ 38	\$ 88,058	\$ 55
CHANGE IN OBLIGATED BALANCE				
Unpaid Obligations:				
Unpaid Obligations, Brought Forward, October 1	\$ 46,261	\$ 67	\$ 43,759	\$ 83
New Obligations and Upward Adjustments	81,858	29	74,602	33
Outlays, Gross	(75,160)	(25)	(69,559)	(36)
Actual Transfers, Unpaid Obligations, Net	(10)	-	(10)	-
Recoveries of Prior Year Unpaid Obligations	(2,433)	(15)	(2,531)	(13)
Unpaid Obligations, End of Year	50,516	56	46,261	67
Uncollected Payments:				
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(2,480)	(62)	(2,707)	(76)
Change in Uncollected Customer Payments from Federal Sources	289	10	227	14
Uncollected Customer Payments from Federal Sources, End of Year	(2,191)	(52)	(2,480)	(62)

(Continued)

Financial Information

Department of Homeland Security
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2017 and 2016
(In Millions)

	2017		2016	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Obligated Balance, Start of Year, Net	\$ 43,781	\$ 5	\$ 41,052	\$ 7
Obligated Balance, End of Year, Net	\$ 48,325	\$ 4	\$ 43,781	\$ 5
BUDGET AUTHORITY AND OUTLAYS, NET				
Budget Authority, Gross	\$ 86,620	\$ 2	\$ 70,010	\$ (10)
Actual Offsetting Collections	(11,346)	(14)	(11,731)	(8)
Change in Uncollected Customer Payments from Federal Sources	289	10	227	14
Recoveries of Prior Year Paid Obligations	79	-	144	-
Budget Authority, Net	\$ 75,642	\$ (2)	\$ 58,650	\$ (4)
Outlays, Gross	\$ 75,160	\$ 25	\$ 69,559	\$ 36
Actual Offsetting Collections	(11,346)	(14)	(11,731)	(8)
Outlays, Net	63,814	11	57,828	28
Distributed Offsetting Receipts	(11,611)	-	(10,911)	-
Agency Outlays, Net	\$ 52,203	\$ 11	\$ 46,917	\$ 28

The accompanying notes are an integral part of these statements.

Department of Homeland Security
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2017 and 2016
(In Millions)

	<u>2017</u>	<u>2016</u>
Revenue Activity (Note 29)		
Sources of Cash Collections:		
Duties	\$ 34,835	\$ 35,142
User Fees	1,504	1,402
Excise Taxes	3,631	3,430
Fines and Penalties	97	65
Interest	23	22
Miscellaneous	186	195
Total Cash Collections	<u>40,276</u>	<u>40,256</u>
Accrual Adjustments, Net	<u>(78)</u>	<u>(181)</u>
Total Custodial Revenue	<u>40,198</u>	<u>40,075</u>
Disposition of Collections		
Transferred to Federal Entities:		
U.S. Department of Agriculture	10,681	10,733
Treasury General Fund Accounts	26,192	26,169
U.S. Army Corps of Engineers	1,388	1,310
Other Federal Agencies	44	40
Transferred to Non-Federal Entities	136	87
(Increase)/Decrease in Amounts Yet to be Transferred	(66)	(131)
Refunds and Drawbacks (Notes 18 and 29)	1,823	1,867
Total Disposition of Custodial Revenue	<u>40,198</u>	<u>40,075</u>
Net Custodial Activity	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these statements.

Financial Information

Notes to the Financial Statements

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1. Summary of Significant Accounting Policies

A. Reporting Entity

The Department was established by the Homeland Security Act of 2002 (Pub. L. 107-296), dated November 25, 2002, as an executive department of the U.S. Federal Government. The Department leads efforts to achieve a safe, secure, and resilient homeland by countering terrorism and enhancing our security; securing and managing our borders; enforcing and administering our immigration laws; protecting our cyberspace and critical infrastructure; and ensuring resilience from disasters. In addition, the Department contributes in many ways to elements of broader United States national and economic security while also working to mature and strengthen the Department and the homeland security enterprise. The Department includes the following financial reporting Components¹:

- U.S. Customs and Border Protection (CBP)
- U.S. Coast Guard (USCG)
- U.S. Citizenship and Immigration Services (USCIS)
- Federal Emergency Management Agency (FEMA)
- Federal Law Enforcement Training Center (FLETC)
- National Protection and Programs Directorate (NPPD)
- U.S. Immigration and Customs Enforcement (ICE)
- Office of Health Affairs (OHA)
- Departmental Operations and Other, including the Management Directorate (MGMT), the Office of the Secretary, the Office of Inspector General (OIG), the Domestic Nuclear Detection Office (DNDO), the Office of Intelligence and Analysis (I&A), and the Office of Operations Coordination (OPS)
- U.S. Secret Service (USSS)
- Science and Technology Directorate (S&T)
- Transportation Security Administration (TSA)

B. Basis of Presentation

These financial statements are prepared to report the consolidated financial position, net cost of operations, changes in net position, custodial activity, and combined budgetary resources of the Department pursuant to the Government Management Reform Act of 1994 and the Chief Financial Officers Act of 1990, as amended by the Reports Consolidation Act of 2000 and the DHS Financial Accountability Act of 2004.

The Department's financial statements have been prepared from the accounting records of the Department based on U.S. generally accepted accounting principles (GAAP) and OMB Circular A-136, *Financial Reporting Requirements*, as amended. GAAP for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board, the official accounting standards-setting body of the Federal Government.

¹ Financial reporting Components are to be distinguished from direct report Components described in the Management's Discussion and Analysis, Our Organization.

Financial Information

The Department's financial statements reflect the reporting of departmental activities, including appropriations received to conduct operations and revenue generated from operations. The financial statements also reflect the reporting of certain non-entity (custodial) functions performed by the Department on behalf of the Federal Government.

Intragovernmental assets and liabilities are derived from activity with other federal entities. All other assets and liabilities result from activities with parties outside the Federal Government, such as domestic and foreign persons, organizations, or governments. Intragovernmental earned revenue includes collections or revenue accruals from other federal entities, and intragovernmental costs are payments or expense accruals to other federal entities.

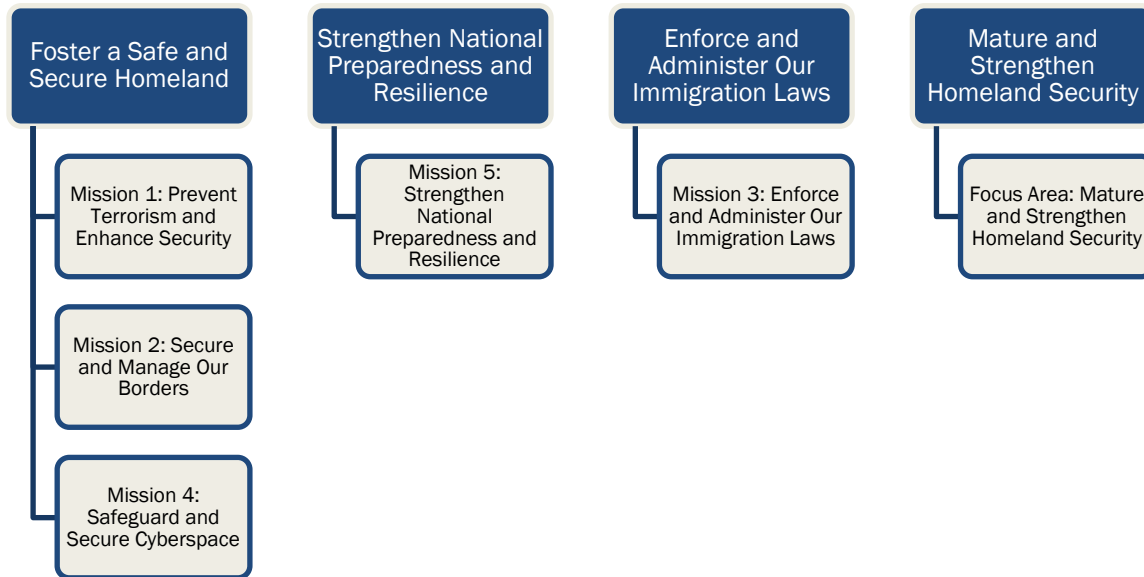
Transactions and balances among the Department's Components have been eliminated in the consolidated presentation of the Balance Sheets, Statements of Net Cost, Statements of Changes in Net Position, and the Statements of Custodial Activity. Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position. The Statements of Budgetary Resources are reported on a combined basis; therefore, intradepartmental balances have not been eliminated.

While these financial statements have been prepared from the books and records of the Department in accordance with the formats prescribed by OMB, these financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These financial statements should be read with the realization that they are for a component of the Federal Government, a sovereign entity, whose liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation, and that the payment of all liabilities other than for contracts, can be abrogated by the Federal Government acting in its capacity as a sovereign entity.

The Department presents its Statements of Net Cost by grouping the missions and focus area described in the DHS strategic plan into four major missions. The consolidation of the missions and focus area(s) into four major missions allows the reader of the financial statements to see how resources are spent towards a common objective of a safe, secure, and more resilient America. The Department is presenting its Statements of Net Cost and related footnotes aligned to the DHS FY 2014-2018 Strategic Plan.

The following diagram shows the relationship between the Department's missions and the focus area described in the DHS FY 2014-2018 Strategic Plan and the four major missions used to present the Statements of Net Cost and related disclosures:



C. Basis of Accounting

Transactions are recorded on an accrual and a budgetary basis of accounting. Under the accrual basis, revenue is recognized when earned, and expenses are recognized when a liability is incurred, regardless of when cash is exchanged. Budgetary accounting facilitates compliance with legal constraints and the controls over the use of federal funds. The balances and activity of budgetary accounts are used to prepare the Statements of Budgetary Resources. The Statements of Custodial Activity are reported using the modified cash basis. With this method, revenue from cash collections is reported separately from receivable accruals, and cash disbursements are reported separately from payable accruals.

D. Use of Estimates

Preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of consolidated financial statements, and the reported amounts of revenue, claims and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include: the year-end accruals of accounts and grants payable; environmental liabilities; deferred revenue; National Flood Insurance Program (NFIP) insurance liability; actuarial liabilities related to workers' compensation; and actuarial liabilities related to military and other pension, retirement, and post-retirement benefits.

E. Entity and Non-Entity Assets

Entity assets are assets the Department has the authority to use in its operations. The authority to use funds in an entity's operations means either Department management has the authority to decide how funds are used or management is legally obligated to use funds to meet entity obligations (e.g., salaries and benefits).

Non-entity assets are assets held by the Department but not available for use by the Department. An example of a non-entity asset is the portion of Fund Balance with Treasury

Financial Information

that consists of special and deposit funds, permanent appropriations, and miscellaneous receipts. Non-entity assets are offset by corresponding liabilities.

For additional information, see Note 2, Non-Entity Assets.

F. Fund Balance with Treasury

Fund Balance with Treasury represents the aggregate amount of the Department's accounts with the Department of the Treasury (Treasury) available to pay current liabilities and finance authorized purchases, except as restricted by law. The Department's Fund Balance with Treasury balances are primarily appropriated, revolving, trust, deposit, receipt, and special fund amounts remaining as of the end of the fiscal year.

For additional information, see Note 3, Fund Balance with Treasury.

G. Cash and Other Monetary Assets

The Department's cash and other monetary assets primarily consist of undeposited collections, imprest funds, cash used in undercover operations, cash held as evidence, cash held by insurance companies, and seized cash and monetary instruments. The Department maintains cash in commercial bank accounts.

Insurance companies receive and process certain receipts and disbursements on behalf of FEMA. Insurance companies hold cash from flood insurance premiums to be remitted to Treasury, as well as insurance claim payments to be distributed to the insured.

For additional information, see Note 4, Cash and Other Monetary Assets.

H. Investments, Net

Investments consist of Federal Government nonmarketable par value and nonmarketable market-based Treasury securities and are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the terms of the investment using the effective interest method or the straight-line method, which approximates the interest method.

No provision is made for unrealized gains or losses on these securities because it is the Department's intent to hold these investments to maturity.

For additional information, see Note 5, Investments, Net.

I. Accounts Receivable, Net

Accounts receivable represent amounts due to the Department from other federal agencies and the public. In general, intragovernmental accounts receivable arise from the provision of goods and services to other federal agencies and are expected to be fully collected.

Accounts receivable due from the public typically result from various immigration and user fees, premiums and policy fees from insurance companies and policyholders, breached bonds,

reimbursable services, oil spill cost recoveries, security fees, loans, grant programs and contracts.

Public accounts receivable are presented net of an allowance for doubtful accounts, which is based on analyses of debtors' ability to pay, specific identification of probable losses, aging analysis of past-due receivables, or historical collection experience.

Taxes, duties, and trade receivables consist of duties, user fees, fines and penalties, refunds and drawback overpayments, and interest associated with import/export activity, which have been established as specifically identifiable, legally enforceable claims which remain uncollected as of year-end.

For additional information, see Note 6, Accounts Receivable, Net, Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 22, Funds from Dedicated Collections.

J. Advances and Prepayments

Intragovernmental advances, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance advances to other federal agencies.

Advances and prepayments to the public, presented as a component of other assets in the accompanying Balance Sheets, consist primarily of disaster recovery and assistance grants to states, allowances and commission expenses to insurance companies, and other grant activity.

The allowances and commission expenses are amortized over the life of the policy. Disaster recovery and assistance grant advances are expensed as they are used by the recipients. Advances are made within the amount of the total grant obligation.

For additional information, see Note 13, Other Assets.

K. Direct Loans, Net

Direct loans are loans issued by the Department to local governments. FEMA, the only DHS Component with loan activity, operates the Community Disaster Loan Program to support local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and demonstrate a need for federal financial assistance in order to perform their municipal operating functions. Under the program, FEMA transacts direct loans to local governments that meet statutorily set eligibility criteria. Loans are accounted for as receivables as funds are disbursed.

All of the Department's loans are post-1991 obligated direct loans, and the resulting receivables are governed by the Federal Credit Reform Act of 1990 (FCRA) (Pub. L. 101-508). Under FCRA, for direct loans disbursed during a fiscal year, the corresponding receivable is adjusted for subsidy costs. Subsidy costs are estimated long-term costs to the Federal Government for its loan programs. The subsidy cost is equal to the present value of the estimated cash outflows over the life of the loans minus the present value of the estimated cash inflows, discounted at the applicable Treasury interest rate. Administrative costs such as salaries and contractual fees are not included. Subsidy costs can arise from interest rate

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differentials, interest subsidies, delinquencies and defaults, and other cash flows. The Department calculates the subsidy costs based on a subsidy calculator model created by OMB.

Loans receivable are recorded at the present value of the estimated net cash flows. The difference between the outstanding principal of the loans and the present value of their net cash inflows is recorded in the allowance for subsidy, which is estimated and adjusted annually, as of year-end. Interest receivable is the total interest that has accrued on each of the outstanding loans, less any cancellations that may have been recorded due to the FEMA cancellation policy as described in 44 Code of Federal Regulations (CFR) Section 206.366.

For additional information, see Note 8, Direct Loans, Net.

L. Inventory and Related Property, Net

Operating Materials and Supplies (OM&S) held for use and repair represent the largest portion of DHS inventory and related property. OM&S consist primarily of goods, including reparable spare parts, consumed during the maintenance of assets used to perform DHS missions, including vessels, small boats, electronic systems, and aircraft.

OM&S managed by the USCG inventory control points, consist of consumable and reparable items that are valued at historical cost using a moving average cost and accounted for using the consumption method. OM&S reparable items that are in a “held for repair” status are recorded at historical cost with an allowance for the cost of the repair.

OM&S held at CBP sites consist of aircraft parts, vessel parts, border security parts, and CBP uniforms to be used in CBP’s operations. Manned aircraft and border security parts and materials are recorded at average unit cost. Unmanned aircraft parts, vessel parts, and uniforms are recorded using the first-in/first-out valuation method. Both methods approximate actual acquisition costs. The cost of the repairs for OM&S reparable items that are in a “held for repair” status is recorded using the direct method.

Inventory is tangible personal property held for sale or used in the process of production for sale. Inventory includes items such as uniforms, bulk steel and other U.S. Coast Guard Yard supplies, fuel, and subsistence. Inventories on hand at year-end are stated at cost using standard price/specific identification, first-in/first-out, or moving average cost methods, which approximates historical cost. Revenue on inventory sales and associated cost of goods sold are recorded when merchandise is sold to the end user.

Stockpile materials are critical materials held due to statutory requirements for use in national emergencies. The Department’s stockpile materials held by FEMA include goods that would be used to respond to national disasters (e.g., water, meals, cots, blankets, tarps, and blue roof sheeting). Stockpile materials at year-end are stated at historical cost using the weighted average method.

For additional information, see Note 9, Inventory and Related Property, Net.

M. Seized and Forfeited Property

Seized property falls into two categories: nonprohibited and prohibited.

Nonprohibited seized property includes items that are not inherently illegal to possess or own, such as monetary instruments, real property, and tangible personal property of others. Nonprohibited seized and forfeited property is reported by the Treasury forfeiture fund.

Prohibited seized property includes illegal drugs, contraband, and counterfeit items that cannot legally enter into the commerce of the United States. Prohibited seized property results primarily from criminal investigations and passenger/cargo processing. Prohibited seized property is not considered an asset of the Department and is not reported as such in the Department's financial statements. However, the Department has a stewardship responsibility until the disposition of the seized items is determined (i.e., judicially or administratively forfeited or returned to the entity from which it was seized).

Forfeited property is seized property for which the title has passed to the Federal Government. Prohibited forfeited items such as counterfeit goods, narcotics, or firearms are held by the Department until disposed of or destroyed.

An analysis of changes in prohibited seized and forfeited property is presented in Note 10, Seized and Forfeited Property.

N. General Property, Plant, and Equipment, Net

The Department's PP&E consists of aircraft, vessels, vehicles, land, structures, facilities, leasehold improvements, software, information technology, and other equipment—including small boats, security equipment, industrial equipment, and communications gear. PP&E is generally recorded at historical cost. The Department capitalizes PP&E acquisitions when the cost equals or exceeds an established threshold and has a useful life of two years or more.

Costs for construction projects are recorded as construction-in-progress until the asset is placed in service. Costs are valued at actual (direct) costs plus applied overhead and other indirect costs. At year-end, a portion of the construction-in-progress balance may be estimated to accrue amounts for work completed but not yet recorded. The Department owns some of the buildings in which Components operate. The majority of other buildings are provided by the General Services Administration (GSA), which charges rent equivalent to the commercial rental rates for similar properties.

Internal-use software includes purchased commercial off-the-shelf (COTS) software, contractor-developed software, and internally developed software. For COTS software, the capitalized costs are equal to the amount paid to the vendor for the software. For contractor-developed software, the capitalized costs include the amount paid to a contractor to design, program, install, and implement the software. For internally developed software, capitalized costs include the full costs (direct and indirect) incurred during the software development phase. Costs incurred during the preliminary design and post-implementation/operational phases are expensed in the period incurred.

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DHS policy allows Components to continue using legacy capitalization thresholds and Component-specific policies for assets acquired prior to October 1, 2007. For assets acquired on or after October 1, 2007, Components use the DHS capitalization policy as general guidance. The schedule below shows a summary of the capitalization thresholds and estimated useful life in accordance with DHS-wide policy. Actual capitalization thresholds and service lives used by DHS Components may vary. Bulk purchases are generally subject to a \$1 million capitalization threshold. Capital improvements extending the service life of assets are not included in these ranges.

Asset Description	Capitalization Threshold	Useful Life
Land	Zero	Not Applicable
Improvements to Land	\$200,000	2 years to 50 years
Buildings, Other Structures and Facilities	\$200,000	10 years to 50 years
Equipment	\$200,000	5 years to 30 years
Capital Leases	\$200,000	2 years to 20 years
Leasehold Improvements	\$200,000	2 years to 50 years
Internal Use Software	\$750,000	2 years to 13 years

The Department begins to recognize depreciation expense once the asset has been placed in service. Depreciation is calculated on a straight-line method for all asset classes over their estimated useful lives. Land is not depreciated. Leasehold improvements are depreciated over the shorter of the term of the remaining portion of the lease or the useful life of the improvement. Buildings and equipment acquired under capital leases are amortized over the lease term. Amortization of capitalized software is calculated using the straight-line method and begins on the date of acquisition if purchased, or when the module or component has been placed in use (i.e., successfully installed and tested) if contractor or internally developed. There are no restrictions on the use or convertibility of general PP&E.

For additional information, see Note 11, General Property, Plant, and Equipment, Net, and Note 19, Leases.

O. Stewardship Property, Plant, and Equipment

Stewardship PP&E includes heritage assets that generally are not included in general PP&E presented on the Balance Sheet. Heritage assets are unique due to their historical or natural significance; cultural, educational, or artistic importance; or significant architectural characteristics. In general, heritage assets are expected to be preserved indefinitely. The Department's heritage assets are maintained by the USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, FLETC, and ICE.

These heritage assets consist of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures. The cost of improving, reconstructing, or renovating heritage assets is recognized as an expense in the period incurred. Similarly, the cost to acquire or construct a heritage asset is recognized as an expense in the period incurred. Due to their nature, heritage assets are not depreciated because matching costs with specific periods would not be meaningful.

Heritage assets can serve two purposes: a heritage function and a general government operational function. If a heritage asset serves both purposes, but is predominantly used for general government operations, the heritage asset is considered a multi-use heritage asset, which is depreciated and included in general PP&E on the Balance Sheet. The Department depreciates its multi-use heritage assets over their useful life. The Department's multi-use heritage assets consist of buildings and structures, memorials, and recreation areas owned by CBP, USCG, FEMA, and ICE.

For additional information, see Note 12, Stewardship Property, Plant, and Equipment.

P. Liabilities

Liabilities represent the probable and measurable future outflow or other use of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or for which funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available congressionally appropriated funds or other amounts, where there is no certainty that the appropriations will be enacted. The Federal Government, acting in its sovereign capacity, can annul liabilities of the Department arising from any transaction or event other than contracts or other instances where its sovereign immunity has been waived (e.g., refund statutes).

Q. Contingent Liabilities

The Department accrues contingent liabilities where a loss is determined to be probable and the amount can be reasonably estimated. The Department discloses contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. Contingent liabilities considered remote are generally not disclosed unless they involve guarantees, in which case the nature of the guarantee is disclosed.

For additional information, see Note 21, Commitments and Contingent Liabilities.

Environmental Cleanup Costs. Environmental liabilities consist of environmental remediation, cleanup, and decommissioning. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated asset into compliance with applicable environmental standards. Accruals for environmental cleanup costs are the costs of removing, containing, and/or disposing of hazardous wastes or materials that, because of quantity, concentration, or physical or chemical characteristics, may pose a substantial present or potential hazard to human health or the environment.

For all PP&E in service after September 30, 1997, the Department recognizes the estimated total cleanup costs associated with the PP&E when the cleanup costs are probable and reasonably estimable. The estimate may be subsequently adjusted for material changes due to inflation/deflation or changes in regulations, cleanup plans, or technology. The applicable

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costs of decommissioning the Department's existing and future vessels are considered cleanup costs.

For additional information, see Note 17, Environmental and Disposal Liabilities.

R. Liabilities for Grants and Cooperative Agreements

The Department awards grants and cooperative agreements to state and local governments, universities, nonprofit organizations, and private-sector companies to build their capacity to respond to disasters and emergencies; conduct research into preparedness; enhance and ensure the security of passenger and cargo transportation by air, land, or sea; and support other Department-related activities. The Department estimates the year-end grant and cooperative agreement accrual for unreported and unpaid recipient expenditures using historical disbursement data in compliance with Federal Financial Accounting Technical Release 12, *Accrual Estimates for Grant Programs*. Grants and cooperative agreement liabilities are recorded as grants payable to the public and reported as Other Liabilities in the accompanying Balance Sheets. As grantee expenditure in a given year may vary greatly depending on occurrence of disasters and the expiration dates of awards for the numerous non-disaster grant programs, the estimate may vary significantly year-over-year.

S. Insurance Liabilities

Insurance liabilities are primarily the result of the Department's sale or continuation-in-force of flood insurance policies within the NFIP, which is managed by FEMA. The NFIP insurance liability represents an estimate based on the loss and loss adjustment expense factors inherent to the NFIP Insurance Underwriting Operations, including trends in claim severity and frequency. These estimates are routinely reviewed, and adjustments are made as deemed necessary. The estimate is driven primarily by flooding activity in the U.S. and can vary significantly year over year depending on timing and severity of flooding activity.

The Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) and the Homeowner Flood Insurance Affordability Act of 2014 (Pub. L. 113-89) amended the National Flood Insurance Act of 1968 to extend the NFIP, the financing for it, and established a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

Subsidized rates are charged on a countrywide basis for certain classifications of the insured. These subsidized rates produce a premium less than the loss and loss adjustment expenses expected to be incurred in a historical average loss year. Subsidized rates are used to provide affordable insurance on construction or substantial improvements started on or before December 31, 1974, or before the effective date of the initial Flood Insurance Rate Map (i.e., an official map of a community on which NFIP has delineated both the special hazard areas and the nonsubsidized premium zones applicable to the community).

For additional information, see Note 18, Other Liabilities, and Note 20, Insurance Liabilities.

T. Debt and Borrowing Authority

Debt is reported within Intragovernmental Liabilities and results from Treasury loans and related interest payable to fund NFIP and Disaster Assistance Direct Loan Program (DADLP) operations of FEMA. Most of this debt is not covered by current budgetary resources. Premiums collected by FEMA for the NFIP based on subsidized rates are not sufficient to cover the debt repayments (see Note 1.S, Insurance Liabilities); therefore, FEMA does not anticipate repaying the debt.

Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for insurance claims and community disaster loans (CDLs). Borrowing authority is converted to cash and transferred to the Fund Balance with Treasury when needed for these purposes.

For more information, see Note 15, Debt, and Note 25, Available Borrowing Authority.

U. Accrued Payroll and Benefits

Accrued Payroll. Accrued payroll consists of salaries, wages, and other compensation earned by employees but not disbursed as of September 30. The liability is estimated for reporting purposes based on historical pay information.

Leave Program. Earned annual and other vested compensatory leave is accrued as it is earned and reported on the Balance Sheet. The liability is reduced as leave is taken. Each year, the balances in the accrued leave accounts are adjusted to reflect the liability at current pay rates and leave balances. Sick leave and other types of nonvested leave are not earned benefits. Accordingly, nonvested leave is expensed when used.

Federal Employees Compensation Act. The *Federal Employees Compensation Act* (FECA) (Pub. L. 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases. The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the Department for these paid claims.

The FECA liability consists of two elements. The first element, accrued FECA liability, is based on claims paid by DOL but not yet reimbursed by the Department. The Department reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two- to three-year period between payment by DOL and reimbursement to DOL by the Department. As a result, the Department recognizes an intragovernmental liability for the claims paid by DOL and to be reimbursed by the Department.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments and is recorded as a component of federal employee and veterans' benefits. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB

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economic assumptions for 10-year Treasury notes and bonds. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

For additional information regarding accrued FECA liability, payroll, and leave, see Note 18, Other Liabilities. For more information on the actuarial FECA liability, see Notes 1.V and Note 16, Federal Employee and Veterans' Benefits.

V. Federal Employee and Veterans' Benefits

The Department's federal employee and veterans' benefits consist of the USCG's Military Retirement System (MRS), USCG Military Health System (MHS), USSS's Uniformed Division and Special Agent Pension, other civilian employees' pension programs, other retirement benefits (ORB), other post-employment benefits (OPEB), and the actuarial FECA liability.

The Department recognizes liabilities and expenses for MRS, MHS, and Uniformed Division and Special Agent Pension. Gains and losses from changes in long-term assumptions used to measure these liabilities are reported as a separate line item on the Statement of Net Cost, consistent with Statement of Federal Financial Accounting Standards (SFFAS) No. 33, *Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates*. Civilian employees' pension programs, ORB, and OPEB are administered by the Office of Personnel Management (OPM) and do not represent a liability for the Department.

Military Retirement System. The MRS is a defined benefit plan that includes pension benefits, disability benefits, and survivor benefits and covers all retired active duty and reserve military members of the USCG. The plan is a pay-as-you-go system funded through annual appropriations. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). The remaining portion of that present value is attributed to future service (service by participants rendered on or after the date of determination) and is the present value of the future employer normal costs. The normal cost (current period expense) and the attribution of the present value of the future benefits between past service and future service are determined using the individual entry age normal actuarial cost method.

Under the National Defense Authorization Act for FY 2016 (Pub. L. 114-92), members entering service after December 31, 2017 will be enrolled in the new modernized retirement system, also referred to as the Blended Retirement System (BRS). BRS changes the pension formula by reducing the percentage per year of service, and entitles members to Thrift Savings Plan contributions, as well as additional compensation in exchange for a commitment for additional years of service (after serving for 12 years). Members who joined USCG after January 1, 2006, and reservists with fewer than 4,320 points on December 31, 2017, may choose either BRS or the legacy retirement system.

Military Health System. There are two categories of military healthcare benefits, but only one generates a liability for the USCG retirees and beneficiaries. The first category of military healthcare liability is for the Medicare-eligible USCG military retirees and beneficiaries. The Department of Defense (DOD) is the administrative entity for the Medicare-Eligible Retiree

Health Care Fund (MERHCF) and, in accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, is required to recognize the liability on the MERHCF's financial statements. The USCG makes annual payments to fund benefits for the current active duty members and their spouses who will receive benefits when they reach Medicare-eligibility. The USCG receives per-member amounts (reserve and active duty member amounts separately) to be contributed to the MERHCF from the DOD Board of Actuaries office and pays its share, depending on its demography. Because the DOD reports the entire liability for MERHCF, USCG is only responsible for the annual per-member amounts.

The second category of military healthcare liability is for non-Medicare-eligible retirees and beneficiaries. The MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The USCG is the administrative entity for MHS, and in accordance with SFFAS No. 5, recognizes the liability on its financial statements. As with the MRS, the actuarial accrued liability for MHS is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). Benefits are funded on a pay-as-you-go basis through annual appropriations.

The discount rates used to measure the MRS and MHS actuarial liabilities for USCG are based on the 10-year average historical rates of return on marketable Treasury securities at September 30. The rates used in this average are the rates for securities that will mature on the dates on which future benefit payments are expected to be made.

Uniformed Division and Special Agent Pension. The District of Columbia Police Officers' and Firefighters' Retirement Plan (the DC Pension Plan) is a defined benefit plan that covers USSS Uniformed Division and Special Agents hired as civilians prior to January 1, 1984, and eligible for transfer to the DC Pension Plan. Uniformed Division and Special Agents hired after that date are covered as law enforcement agents by the Federal Employees Retirement System (FERS) basic annuity benefit, FERS revised annuity benefit, or FERS further revised annuity benefit, as appropriate. The DC Pension Plan makes benefit payments to retirees or their beneficiaries. USSS receives permanent, indefinite appropriations each year to pay the excess of benefit payments over salary deductions. The DC Pension Plan is a pay-as-you-go system funded through annual appropriations. USSS calculates pension liability using a discount rate assumption for present value of future benefits in accordance with SFFAS No. 5 and SFFAS No. 33. The unfunded accrued liability is actuarially determined by subtracting the present value of future employer/employee contributions, as well as any plan assets, from the present value of future cost of benefits. SFFAS No. 5 permits the use of actuarial cost methods other than the aggregate entry age normal actuarial cost method if the difference is not material.

For more information on MRS, MHS, Uniformed Division and Special Agent Pension, and the actuarial assumptions used to compute the accrued pension and healthcare liabilities, see Note 16, Federal Employee and Veterans' Benefits.

Civilian Pension, Other Retirement Benefits, and Other Post-Employment Benefits. The Department recognizes the full annual cost of its civilian employees' pension benefits; however, the assets of the plan and liability associated with pension costs are recognized by OPM rather than the Department. Accordingly, the Department does not display gains and

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losses from changes in long-term assumptions used to measure these liabilities on the Statement of Net Cost.

Most DHS employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes 7 percent of base pay for regular CSRS employees and 7.5 percent of base pay for law enforcement agents. FERS and Social Security cover the majority of employees hired after December 31, 1983. Employees hired between January 1, 1984 and December 31, 2012 are covered by the FERS basic annuity benefit. For the FERS basic annuity benefit, the Department contributes 13.7 percent of base pay for regular FERS employees and 30.1 percent for law enforcement agents. Employees hired between January 1, 2013 and December 31, 2013 are covered by the FERS revised annuity benefit; employees hired after December 31, 2013 are covered by the FERS further revised annuity benefit. For the FERS revised annuity benefit and the further revised annuity benefit, the Department contributes 11.9 percent of base pay for regular FERS employees and 28.4 percent for law enforcement agents. A primary feature of FERS is that it also offers a defined contribution plan (Federal Thrift Savings Plan) to which the Department automatically contributes one percent of base pay and matches employee contributions up to an additional four percent of base pay. The Department also contributes the employer's Social Security matching share for FERS participants.

Similar to CSRS and FERS, OPM reports the liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program and Federal Employees Group Life Insurance Program. The Department reports both the full annual cost of providing these ORB for its retired employees and reporting contributions made for active employees. In addition, the Department recognizes the cost for OPEB, including all types of benefits provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents.

The difference between the full annual cost of CSRS and FERS retirement, ORB, and OPEB and the amount paid by the Department is recorded as an imputed cost and offsetting imputed financing source in the accompanying financial statements.

W. Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenue, provided to the government by non-federal sources, often supplemented by other financing sources, which remain available over time. These specifically identified revenue and other financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the Federal Government's general revenue.

Non-exchange revenue and other financing sources from funds from dedicated collections, including net cost of operations, are shown separately on the Statements of Changes in Net Position. The portion of cumulative results of operations attributable to funds from dedicated collections is shown separately on both the Statements of Changes in Net Position and the Balance Sheets.

For additional information, see Note 22, Funds from Dedicated Collections.

X. Revenue and Financing Sources

Appropriations. The Department receives the majority of funding to support its programs through congressional appropriations. The Department receives annual, multi-year, and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional funding is obtained through exchange revenue, non-exchange revenue (including donations from the public), and transfers-in from other federal entities.

The Department also has permanent indefinite appropriations that result from permanent public laws, which authorize the Department to retain certain receipts. The amount appropriated depends upon the amount of the receipts rather than on a specific amount.

Appropriations are recognized as financing sources when related expenses are incurred or assets are purchased. Revenue from reimbursable agreements is recognized when the goods or services are provided by the Department. Prices for goods and services sold to the public are based on recovery of full cost or are set at a market price. Reimbursable work between federal agencies is generally subject to the Economy Act (31 United States Code (USC) 1535). Prices for goods and services sold to other Federal Government agencies are generally limited to the recovery of direct cost.

Appropriations Received on the Statement of Changes in Net Position differs from that reported on the Statement of Budgetary Resources because Appropriations Received on the Statement of Changes in Net Position do not include receipts from dedicated collections. Receipts from dedicated collections are accounted for as either exchange or non-exchange revenue.

Allocation Transfers. Prior to FY 2016, the Department received allocation transfers from the U.S. Department of Transportation. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the Treasury as a subset of the parent (transferring) fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child (receiving) entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. In general, all financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying statutory authority, appropriations, and budget apportionments are derived.

Exchange and Non-exchange Revenue. Exchange revenue is recognized when earned and is derived from transactions where both the government and the other party receive value (i.e., goods have been delivered or services have been rendered). DHS exchange revenue includes, but is not limited to: immigration fees, NFIP insurance premiums, Student Exchange Visa Program fees, and aviation security fees. Reimbursable exchange revenue includes, but is not limited to: services provided to the government of Puerto Rico for the collection of duties, taxes, and fees; services for personnel; medical, housing and various types of maritime support; the Federal Protective Service Guard personnel; and oil spill cleanup costs.

The majority of DHS non-exchange revenue is derived from the custodial collections of user fees, taxes, customs duties, fines and penalties, interest on the fines and penalties, and the refund and drawbacks related to these collections. Non-exchange revenue from user fees

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results from the government's sovereign power to demand revenue and is recognized as earned. Examples of non-exchange revenue from user fees include the collection of fees by CBP on incoming private vessels, private aircraft, and commercial vehicles. Non-exchange revenue also arises from transfers-in with and without financing sources and donations from the public. Other financing sources, such as donations and transfers of assets without reimbursements, are recognized on the Statements of Changes in Net Position during the period in which the donations and transfers occurred.

Deferred revenue is recorded when the Department receives payment for goods or services which have not been fully rendered. Deferred revenue is reported as a liability on the Balance Sheet until earned. NFIP premium revenue is recognized ratably over the life of the policies. Deferred revenue relates to unearned premiums which represent the unexpired portion of policy premiums. USCIS fees are related to adjudication of applications for immigration and naturalization services that are used to provide special benefits to recipients and pay the regulatory costs from the adjudication process. USCIS requires advance payments of the fees for adjudication of applications or petitions for immigration and naturalization benefits.

Imputed Financing Sources. In certain instances, operating costs of the Department are paid out of funds appropriated to other federal agencies. For example, OPM, by law, pays certain costs of retirement programs, and certain legal judgments against DHS are paid from a judgment fund maintained by the Treasury. When costs that are identifiable to DHS and directly attributable to DHS operations are paid by other agencies, the Department recognizes these amounts as operating expenses. The Department also recognizes an imputed financing source on the Statements of Changes in Net Position to indicate the funding of DHS operations by other federal agencies.

Custodial Activity. Non-entity revenue, disbursements, and refunds are reported on the Statement of Custodial Activity using a modified cash basis. Non-entity revenue reported on the Department's Statement of Custodial Activity include duties, excise taxes, and various non-exchange fees collected by CBP that are subsequently remitted to the Treasury general fund or to other federal agencies. Duties, user fees, fines, and penalties are assessed pursuant to the provisions of 19 USC; nonimmigrant petition fees and interest under 8 USC; and excise taxes are assessed under 26 USC.

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. The custodial revenue is recorded at the time of collection. These revenue collections primarily result from current fiscal year activities. CBP records an equal and offsetting liability due to the Treasury general fund for amounts recognized as non-entity tax and trade receivables. Non-entity tax and trade accounts receivables consist of duties, user fees, fines and penalties, refunds and drawbacks overpayments, and interest associated with import/export activity, that have been established as specifically identifiable, legally enforceable claims that remain uncollected as of year-end. CBP accrues an estimate of duties, taxes, and fees related to commerce released prior to year-end where receipt of payment is anticipated subsequent to year-end. The portions of the fees that are subsequently remitted to other federal agencies are recorded as custodial revenue at the time of collection.

Non-entity receivables are presented net of amounts deemed uncollectible. CBP tracks and enforces payment of estimated duties, taxes, and fees receivable by establishing a liquidated

damage case that generally results in fines and penalties receivable. A fine or penalty, including interest on past-due balances, is established when a violation of import/export law is discovered. An allowance for doubtful collections is established for substantially all accrued fines and penalties and related interest. The amount is based on past experience in resolving disputed assessments, the debtor's payment record and willingness to pay, the probable recovery of amounts from secondary sources (such as sureties), and an analysis of aged receivable activity. CBP regulations allow importers to dispute the assessment of duties, taxes, and fees. Receivables related to disputed assessments are not recorded until the protest period expires or a protest decision is rendered in CBP's favor.

Refunds and drawback of duties, taxes, and fees are recognized when payment is made. Generally, a permanent, indefinite appropriation is used to fund the disbursement of refunds and drawbacks. Disbursements are recorded as a decrease in the amount transferred to federal entities as reported on the Statements of Custodial Activity. The liability for refunds and drawbacks consists of amounts owed for refunds of duty and other trade related activity and drawback claims. CBP accrues a monthly liability for refunds and drawback claims approved at month-end, but paid subsequent to month-end.

An accrual adjustment is recorded on the Statements of Custodial Activity to adjust cash collections and refund disbursements with the net increase or decrease of accrued non-entity accounts receivables, net of uncollectible amounts, and refunds payable at year-end.

For additional information, see Note 7, Taxes, Duties, and Trade Receivables, Net, and Note 29, Custodial Revenue.

Y. Taxes

The Department, as a federal agency, is not subject to federal, state, or local income taxes. Therefore, no provision for income taxes has been recorded in the accompanying financial statements.

Z. Reclassifications

In FY 2017, certain FY 2016 balances were reclassified to conform to FY 2017 presentation for the following: Note 7, Taxes, Duties, and Trade Receivables.

Financial Information

2. Non-Entity Assets

Non-entity assets at September 30 consisted of the following (in millions):

	2017	2016
Intragovernmental:		
Fund Balance with Treasury	\$ 2,075	\$ 1,851
Accounts Receivable	1	1
Total Intragovernmental	2,076	1,852
Public:		
Cash and Other Monetary Assets	5	9
Accounts Receivable, Net	35	37
Taxes, Duties, and Trade Receivables, Net	2,980	3,042
Total Public	3,020	3,088
Total Non-Entity Assets	5,096	4,940
Total Entity Assets	106,615	92,690
Total Assets	\$ 111,711	\$ 97,630

Non-entity Fund Balance with Treasury consists of certain special and deposit funds, permanent and indefinite appropriations, and miscellaneous receipts. Non-entity assets (also discussed in Notes 3, 4, 6, and 7) are offset by corresponding liabilities at September 30, 2017 and 2016. Taxes, duties, and trade receivables from the public represent amounts due from importers for goods and merchandise imported to the United States.

3. Fund Balance with Treasury**A. Fund Balance with Treasury**

Fund Balance with Treasury at September 30 consisted of the following (in millions):

	2017	2016
General Funds	\$ 55,928	\$ 50,331
Trust Funds	233	256
Revolving, Public Enterprise, and Working Capital Funds	6,940	1,066
Special Funds	6,589	5,784
Deposit Funds	1,776	1,560
Total Fund Balance with Treasury	\$ 71,466	\$ 58,997

General funds consist of amounts appropriated annually by Congress to fund the operations of the Department. General funds include clearing funds totaling \$(22) million and \$(38) million at September 30, 2017 and 2016, respectively, which represent reconciling differences with Treasury balances. As of September 30, 2017 and 2016, restricted non-entity fund balance with Treasury was \$2,075 million and \$1,851 million, respectively.

Trust funds include both receipt accounts and expenditure accounts that are designated by law as a trust fund. Trust fund receipts are used for specific purposes, in general to offset the cost of expanding border and port enforcement activities, oil spill related claims and activities, and administrative expenses related to the collection of the Harbor Maintenance Fee. For additional information, see Note 22, Funds from Dedicated Collections.

Revolving funds are used for continuing cycles of business-like activity, in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public and those monies are used to finance operations. Examples of Department public enterprise funds include the direct loans program and NFIP. In addition, the Working Capital Fund is a fee-for-service fund established to support operations of Department Components.

Special funds are funds designated for specific purposes including the disbursement of non-entity monies received in connection with antidumping and countervailing duty orders due to qualifying Injured Domestic Industries. The Department also has special funds for immigration and naturalization user fees and CBP user fees, as well as inspection fees, National Flood Insurance Reserve Fund fees, and off-set and refund transfers. For additional information, see Note 22, Funds from Dedicated Collections. In addition, some special funds are included in budgetary status as available for obligations. For additional information, see Note 26, Legal Arrangements Affecting the Use of Unobligated Balances.

Deposit funds represent amounts received as an advance that are not accompanied by an order and include non-entity collections that do not belong to the Federal Government.

Financial Information

B. Status of Fund Balance with Treasury

The status of Fund Balance with Treasury at September 30 consisted of the following (in millions):

	2017	2016
Budgetary Status		
Unobligated Balances:		
Available	\$ 16,598	\$ 10,287
Unavailable	3,478	3,191
Obligated Balance Not Yet Disbursed	48,329	43,786
Total Budgetary Status	68,405	57,264
Reconciling Adjustments:		
Receipt, Clearing, and Deposit Funds	2,826	2,575
Borrowing Authority (Note 25)	(4)	(5)
Investments	(7,568)	(7,886)
Receivable Transfers and Imprest Fund	(308)	(289)
Authority Unavailable for Obligation	6,175	5,459
Offsetting Collections Previously or Temporarily Precluded from Obligation	33	35
SFRBTF; OSLTF	1,443	1,425
Temporary Reduction of Budget Authority	479	434
Temporary Reduction of Specific Invested Treasury Account Symbols	(15)	(15)
Total Fund Balance with Treasury	\$ 71,466	\$ 58,997

Portions of the Unobligated Balances Available, Unavailable, and Obligated Balance Not Yet Disbursed contain CBP's user fees restricted by law in its use to offset costs incurred by CBP. The Unobligated Balances Available also includes transfers in from the Spectrum Relocation Fund (47 USC 928) that will be available for obligation at a future date.

Portions of the Unobligated Balance Unavailable include amounts appropriated in prior fiscal years that are not available to fund new obligations, including expired funds. However, the amounts can be used for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services ordered but not received or goods and services received but for which payment has not yet been made.

Since the following line items do not post to Fund Balance with Treasury and budgetary status accounts simultaneously, certain adjustments are required to reconcile the budgetary status to non-budgetary Fund Balance with Treasury as reported in the accompanying Balance Sheets:

- Receipt, clearing, and deposit funds represent amounts on deposit with Treasury that have no budget status at September 30, 2017 and 2016.

- Borrowing authority, to the extent of existing obligations, is in budgetary status for use by FEMA for NFIP purposes and CDLs, and transfers have been made to the Fund Balance with Treasury account for these purposes. For additional information, see Note 25, Available Borrowing Authority.
- Budgetary resources have investments included; however, the money has been moved from the Fund Balance with Treasury asset account to Investments.
- Receivable transfers of currently invested balances increase the budget authority at the time the transfer is realized; however, obligations may be incurred before the actual transfer of funds.
- Imprest funds represent funds moved from Fund Balance with Treasury to Cash and Other Monetary Assets with no change in the budgetary status.
- For receipts unavailable for obligations, authorizing statute may specify that obligations are not available until a specified time in the future or until specific legal requirements are met.
- Offsetting collections previously or temporarily precluded from obligation are offsetting collections that become unavailable for obligation until specific legal requirements are met.
- Sport Fish Restoration Boating Trust Fund (SFRBTF) and Oil Spill Liability Trust Fund (OSLTF) are Treasury-managed funds. These funds receive revenue transferred from custodial activities of the Treasury, which are deposited in a Treasury account. For more information, see Note 22, Funds from Dedicated Collections.
- Temporary reduction of budget authority includes new budget authority or prior-year balance that have been temporarily reduced by statute in special and nonrevolving trust funds associated with receipt accounts designated by the Treasury as available.
- Temporary reduction of specific invested Treasury account symbols includes reductions of amounts appropriated from specific invested Treasury account symbols in the current year due to OMB sequestered amounts.

4. Cash and Other Monetary Assets

Cash and Other Monetary Assets at September 30 consisted of the following (in millions):

	2017	2016
Total Cash and Other Monetary Assets	\$ 308	\$ 193

DHS cash includes cash held by others, imprest funds, undeposited collections, and the net balances maintained by insurance companies for flood insurance activity. Restricted non-entity cash and other monetary assets were \$5 million and \$9 million at September 30, 2017 and 2016, respectively (see Note 2).

Financial Information

5. Investments, Net

Investments at September 30, 2017, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	\$ 5,672	\$ (2)	\$ 13	\$ 5,683	N/A
SFRBTF	Effective interest method	1,922	1	5	1,928	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		7,595	(1)	18	7,612	N/A
Gifts and Donations Fund	Effective interest method	2	-	-	2	2
Total Nonmarketable, Market-Based		2	-	-	2	2
Total Investments, Net		\$ 7,597	\$ (1)	\$ 18	\$ 7,614	

Investments at September 30, 2016, consisted of the following (in millions):

Type of Investment:	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental Securities:						
OSLTF	Effective interest method	\$ 4,950	\$ 15	\$ 8	\$ 4,973	N/A
SFRBTF	Effective interest method	1,911	(2)	2	1,911	N/A
General Gift Fund	Effective interest method	1	-	-	1	N/A
Total Nonmarketable, Par Value		6,862	13	10	6,885	N/A
National Flood Insurance Reserve Fund	Effective interest method	1,039	120	16	1,175	1,162
Total Nonmarketable, Market-Based		1,039	120	16	1,175	1,162
Total Investments, Net		\$ 7,901	\$ 133	\$ 26	\$ 8,060	

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with funds from dedicated collections: OSLTF, SFRBTF and General Gift Fund at USCG, and National Flood Insurance Reserve Fund and Gifts and Donations Fund at FEMA. The cash receipts collected from the public for a fund from dedicated collections are deposited in the Treasury, which uses the cash for general Federal Government purposes. Treasury securities are issued to the USCG and FEMA as evidence of its receipts. Treasury securities associated with funds from dedicated collections are an asset to the USCG and FEMA, respectively, and a liability to the Treasury.

The National Flood Insurance Reserve Fund was established by the Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) to meet the expected future obligations of the NFIP. Investments in the National Flood Insurance Reserve Fund were liquidated in December 2016 to pay for losses related to Hurricane Matthew. Additional funds were invested in June 2017, and then liquidated in September 2017 to pay for losses as a result of Hurricanes Harvey, Irma, and Maria.

The Gifts and Donations Fund at FEMA was established to help provide for disaster-related needs that have not or will not be met by governmental agencies or any other organization. Cora C. Brown of Kansas City, Missouri died in 1977, leaving a portion of her estate to the United States to be used as a special fund solely for the relief of human suffering caused by natural disasters.

Treasury securities provide the USCG and FEMA with authority to draw upon the Treasury to make future benefit payments or other expenditures. For additional information, see Note 22, Funds from Dedicated Collections.

6. Accounts Receivable, Net

Accounts Receivable, Net, at September 30 consisted of the following (in millions):

	2017	2016
Intragovernmental	\$ 317	\$ 290
With the Public:		
Accounts Receivable	3,484	2,713
Allowance for Doubtful Accounts	(79)	(84)
Total With the Public	3,405	2,629
Accounts Receivable, Net	\$ 3,722	\$ 2,919

As of September 30, 2017 and 2016, total restricted non-entity accounts receivable were \$36 million and \$38 million, respectively (see Note 2). Accounts receivable with the public at September 30, 2017 includes \$1,042 million of anticipated collections based on FEMA's reinsurance agreements.

Financial Information

7. Taxes, Duties, and Trade Receivables, Net

Taxes, Duties, and Trade Receivables consisted of the following (in millions):

As of September 30, 2017:	Gross Receivables	Allowance	Total Net Receivables
Duties	\$ 2,702	\$ (172)	\$ 2,530
Excise Taxes	209	(10)	199
User Fees	78	(1)	77
Fines/Penalties	489	(446)	43
Antidumping and Countervailing Duties	2,629	(2,499)	130
Interest Receivable	1,187	(1,186)	1
Total Taxes, Duties, and Trade Receivables, Net	\$ 7,294	\$ (4,314)	\$ 2,980

As of September 30, 2016:	Gross Receivables	Allowance	Total Net Receivables
Duties	\$ 2,690	\$ (134)	\$ 2,556
Excise Taxes	197	(8)	189
User Fees	76	-	76
Fines/Penalties	545	(444)	101
Antidumping and Countervailing Duties	1,965	(1,848)	117
Interest Receivable	834	(831)	3
Total Taxes, Duties, and Trade Receivables, Net	\$ 6,307	\$ (3,265)	\$ 3,042

CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. Antidumping duties are assessed when it is determined that a class or kind of foreign merchandise is being released into the U.S. economy at less than its fair value to the detriment of a U.S. industry. Countervailing duties are collected when it is determined that a foreign government is providing a subsidy to its local industries to manufacture, produce, or export a class or kind of merchandise for import into the U.S. commerce to the detriment of a U.S. industry.

When a violation of import/export law is discovered, a fine or penalty may be imposed. CBP assesses a liquidated damage or penalty for these cases to the maximum extent of the law. After receiving the notice of assessment, the importer, surety or other party has 60 days to either file a petition requesting a review of the assessment or pay the assessed amount. Once a petition is received, CBP investigates the circumstances as required by its mitigation guidelines and directives. Until this process has been completed, the Department records an allowance, net of interest, on fines and penalties, based on historical experience of fines and penalties mitigation and collection. The allowance was approximately 91 percent and 81 percent at September 30, 2017 and 2016, respectively. Duties and taxes receivables are non-entity assets for which there is an offsetting liability due to the general fund (see Note 18).

CBP assesses interest when taxes, duties, and trade receivables remain unpaid after the original due date. The interest is calculated using the rate published on the CBP website and in the Federal Register quarterly. Interest accruals are calculated using the same methodology as the underlying receivable accrual, and include an allowance for amounts deemed potentially uncollectible.

8. Direct Loans, Net

The Department's loan program consists of CDLs administered by FEMA. CDLs may be authorized to local governments that have suffered a substantial loss of tax and other revenue as a result of a major disaster and have demonstrated a need for federal financial assistance in order to perform their municipal operating functions.

On an annual basis, using the Treasury five-year curve rate, a subsidy estimate is calculated to determine the subsidy rate to be used in order to cover the subsidized portion of future disbursements. The subsidy estimate calculation is based on the re-payment period extended through an initial five-year term plus the five-year extension, the historical average cancellation rate, and the Moody's default rating for municipalities.

The subsidy estimate is revised on an annual basis, also known as a re-estimate, which updates for actual performance and/or estimated changes in future cash flows of the cohort. Legislation also plays a significant role in the subsidy cost of a cohort. New legislation that alters the baseline cash flow estimate for a loan or group of loans always results in a modification. A modification means a government action that may change the cost by altering the terms of the existing contract and changes the estimated cost of an outstanding direct loan.

The CDLs are established at the current Treasury rate for a term of five years. A CDL has a maximum amount of \$5 million. The CDL amount cannot exceed 25 percent of the annual operating budget of the local government for the fiscal year in which the major disaster occurred, unless the loss of tax and other revenue for the local government is at least 75 percent of the annual operating budget. In this case, the CDL amount cannot exceed 50 percent of the annual operating budget. These CDLs can be cancelled by FEMA upon request from local government, if the local government meets the eligibility requirements in 44 CFR section 206.366, *Emergency and Management Assistance, Loan Cancellation*.

The exception is the special CDL for Hurricanes Katrina and Rita, where the interest rate on the loan is less than the Treasury rate, and the amount of the loan cannot exceed 50 percent of the annual operating budget of the local government for the fiscal year in which the major disaster occurred. In addition, special CDLs may exceed \$5 million and may be cancelled in accordance with the following Stafford Act amendments: the Community Disaster Loan Act of 2005 (Pub. L. 109-88), the U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act (Pub. L. 110-28), the Emergency Supplemental Appropriations Act for Defense, the Global War on Terror, and Hurricane Recovery, 2006 (Pub. L. 109-234), and 44 CFR, *Emergency and Management Assistance*.

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The Consolidated and Furthering Appropriations Act, 2013 (Pub. L. 113-6) loosened the restrictions used in calculating the operating deficit to determine if a local government qualifies for additional cancellations. In addition, the law allows FEMA to reimburse those local governments who have repaid all, or a portion of, their loans, and who have received additional cancellations.

A. Summary of Direct Loans to Non-Federal Borrowers at September 30 (in millions):

	2017	2016
	Loans Receivable, Net	Loans Receivable, Net
Community Disaster Loans	\$ 33	\$ 29

An analysis of loans receivable and the nature and amounts of the subsidy and administrative costs associated with the direct loans is provided in the following sections.

B. Direct Loans Obligated After FY 1991 (in millions):

	Loans Receivable , Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
Community Disaster Loans				
2017	\$ 117	\$ 7	\$ (91)	\$ 33
2016	\$ 133	\$ 6	\$ (110)	\$ 29

C. Total Amount of Direct Loans Disbursed, Post-1991 (in millions):

	2017	2016
Community Disaster Loans	\$ 10	\$ 4

D. Subsidy Expense for Direct Loans by Program and Component (in millions):**Subsidy Expense for New Direct Loans Disbursed as of September 30**

Community Disaster Loans	Interest Differential	Other	Total
2017	\$ -	\$ 9	\$ 9
2016	\$ -	\$ 3	\$ 3

Direct Loan Modifications and Re-estimates

Community Disaster Loans	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
2017	\$ -	\$ -	\$ (5)	\$ (5)
2016	\$ -	\$ -	\$ (14)	\$ (14)

Total Direct Loan Subsidy Expense

	2017	2016
Community Disaster Loans	<u>\$ 4</u>	<u>\$ (11)</u>

E. Direct Loan Subsidy Rates at September 30 (in millions):

The direct loan subsidy rates, by program, are as follows:

	2017	2016
	Community Disaster Loans	Community Disaster Loans
Interest Subsidy Cost	2.62%	2.50%
Default Costs	0.17%	0.15%
Other	88.24%	88.40%

The subsidy rates disclosed pertain only to the current year's cohorts. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year(s) cohorts. The subsidy expense reported in the current year also includes modifications and re-estimates.

Default costs include the projected default amounts based on Moody's default curve for years 6 to 10.

The Other line represents the subsidy rates for direct loans that are partially cancelled or cancelled in full if specified conditions are met. Historically, a high percentage of the borrowers have met the conditions for cancellation, thus resulting in a high direct loan subsidy rate.

F. Schedule for Reconciling Subsidy Cost Allowance Balances at September 30 (in millions):

	2017	2016
Beginning balance of the subsidy cost allowance	\$ 110	\$ 120
Add subsidy expense for direct loans disbursed during the reporting years by component:		
Other subsidy costs	9	3
Adjustments:		
Loans written off	(24)	-
Subsidy allowance amortization	1	1
Ending balance of the subsidy cost allowance before re-estimates	96	124
Add subsidy re-estimate by Component		
Technical/default re-estimate	(5)	(14)
Ending balance of the subsidy cost allowance	\$ 91	\$ 110

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G. Administrative Expenses at September 30 (in millions):

	2017	2016
Community Disaster Loans	<u>\$ 1</u>	<u>\$ -</u>

9. Inventory and Related Property, Net

Inventory and Related Property, Net at September 30 consisted of the following (in millions):

	2017	2016
OM&S		
Items Held for Use	\$ 1,333	\$ 1,309
Items Held for Future Use	47	42
Items Held for Repair	856	775
Less: Allowance for Losses	(334)	(309)
Total OM&S, Net	<u>1,902</u>	<u>1,817</u>
Inventory		
Inventory Purchased for Resale	39	37
Less: Allowance for Losses	(7)	(7)
Total Inventory, Net	<u>32</u>	<u>30</u>
Stockpile Materials Held in Reserve	<u>74</u>	<u>89</u>
Total Inventory and Related Property, Net	<u>\$ 2,008</u>	<u>\$ 1,936</u>

10. Seized and Forfeited Property

Prohibited seized property item counts as of September 30 and seizure and forfeiture activity for FY 2017 and 2016 are as follows:

For the fiscal year Ended September 30, 2017:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	219	508,557	262	(508,690)	348
Cocaine	102	36,392	(17)	(35,866)	611
Heroin	23	2,337	(20)	(2,317)	23
Methamphetamine	234	25,095	(27)	(25,063)	239
Khat	-	62,562	-	(62,562)	-
Synthetic Marijuana	9	13,150	1	(13,150)	10
Other Drugs	1,347	16,571	(2,949)	(12,392)	2,577
Firearms and Explosives (in number of case line items)	4,490	1,380	(3,689)	(1,058)	1,123
Counterfeit Currency (US/Foreign, in number of items)	7,670,139	2,401,790	(5,691,302)	-	4,380,627
Counterfeit Goods (in number of case line items)	33,110	71,840	(3,916)	(70,905)	30,129
Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	140,599	508,690	(293,140)	(267,115)	89,034
Cocaine	31,551	35,866	(347)	(33,202)	33,868
Heroin	3,287	2,317	(90)	(2,091)	3,423
Methamphetamine	19,202	25,063	(1,674)	(16,428)	26,163
Khat	3,614	62,562	(30)	(63,890)	2,256
Synthetic Marijuana	10,004	13,150	(64)	(9,115)	13,975
Other Drugs	6,665	12,392	(3,300)	(9,066)	6,691
Firearms and Explosives (in number of case line items)	1,307	1,058	(1,123)	(2)	1,240
Counterfeit Goods (in number of case line items)	30,626	70,905	98	(75,482)	26,147

Financial Information

For the fiscal year Ended September 30, 2016:

Seized Property:	Beginning Balance	New Seizures	Remissions and Adjustments	New Forfeitures	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	1,316	772,329	1,011	(774,437)	219
Cocaine	412	30,701	(381)	(30,630)	102
Heroin	21	2,426	1	(2,425)	23
Methamphetamine	210	18,863	(8)	(18,831)	234
Khat	-	70,277	-	(70,277)	-
Synthetic Marijuana	269	719	(264)	(715)	9
Other Drugs	1,285	11,965	(94)	(11,809)	1,347
Firearms and Explosives (in number of case line items)	4,217	1,951	(360)	(1,318)	4,490
Counterfeit Currency (US/Foreign, in number of items)	7,125,874	3,009,701	(2,465,436)	-	7,670,139
Counterfeit Goods (in number of case line items)	33,212	66,879	(3,265)	(63,716)	33,110
Forfeited Property:	Beginning Balance	New Forfeitures	Transfers and Adjustments	Destroyed	Ending Balance
Illegal Drugs (in kilograms):					
Marijuana	145,112	774,437	(460,331)	(318,619)	140,599
Cocaine	25,037	30,630	(3,717)	(20,399)	31,551
Heroin	3,757	2,425	(466)	(2,429)	3,287
Methamphetamine	14,580	18,831	(1,004)	(13,205)	19,202
Khat	3,000	70,277	24	(69,687)	3,614
Synthetic Marijuana	10,273	715	99	(1,083)	10,004
Other Drugs	4,220	11,809	(550)	(8,814)	6,665
Firearms and Explosives (in number of case line items)	2,504	1,318	(2,507)	(8)	1,307
Counterfeit Goods (in number of case line items)	38,089	63,716	558	(71,737)	30,626

This schedule is presented for prohibited (nonvalued) seized and forfeited property. These items are retained and ultimately destroyed by CBP and USSS and are not transferred to the Treasury's forfeiture fund or other federal agencies.

Illegal drugs consist of tested and verified controlled substances as defined per the Controlled Substances Act. Illegal drugs are presented in kilograms, and a portion of the weight includes packaging, which often cannot be reasonably separated from the weight of the drugs since the

packaging must be maintained for evidentiary purposes. Other drugs include insignificant amounts of controlled substances that do not warrant being isolated to an individual category.

The ending balance for firearms includes only those seized items that can actually be used as firearms. Firearms are presented in number of case line items, which represent different types of firearms seized as part of a case. Counterfeit goods include clothing, footwear, jewelry, electronic equipment, movies, media, identification documents, and other items. Counterfeit goods are presented in number of case line items. USCG and ICE also seize and take temporary possession of small boats, equipment, general property, firearms, contraband, and illegal drugs. CBP maintains the seized property on behalf of USCG and ICE, and transfers nonprohibited seized property to the Treasury forfeiture fund.

Remissions occur when CBP returns property back to the violator. Adjustments are caused by changes during the year to the beginning balances due to changes in legal status or property types. For example, a case considered forfeited could be re-opened and changed to seized status or a drug property type may change on a case. Transfers occur when CBP conveys property to other federal, state, and local law enforcement agencies for prosecution, destruction, or donation.

USSS counterfeit currency includes notes received from external sources, or seized during investigations. Counterfeit currency is presented in number of notes, and represents notes maintained in USSS, including items that are pending destruction. All items are maintained in a secured location until the items reach their eligible destruction date. Counterfeit currency ending balances decrease when notes are destroyed, or when a counterfeit note is reclassified as an educational note.

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11. General Property, Plant, and Equipment, Net

General PP&E consisted of the following (in millions):

As of September 30, 2017:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$ 302	N/A	\$ 302
Improvements to Land	2-50 yrs	2,340	956	1,384
Construction in Progress	N/A	3,076	N/A	3,076
Buildings, Other Structures and Facilities	10-50 yrs	8,407	4,210	4,197
Equipment:				
Information Technology Equipment	5 yrs	984	740	244
Aircraft	20 yrs	5,799	2,818	2,981
Vessels	5-30 yrs	9,063	3,898	5,165
Vehicles	5-15 yrs	1,020	864	156
Other Equipment	5 yrs	7,222	5,014	2,208
Assets Under Capital Lease	2-20 yrs	80	61	19
Leasehold Improvements	2-50 yrs	2,261	1,368	893
Internal Use Software	2-13 yrs	4,352	3,391	961
Internal Use Software - in Development	N/A	301	N/A	301
Total General Property, Plant, and Equipment, Net		\$ 45,207	\$ 23,320	\$ 21,887

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As of September 30, 2016:	Useful Life	Cost	Accumulated Depreciation/ Amortization	Total Net Book Value
Land and Land Rights	N/A	\$ 295	N/A	\$ 295
Improvements to Land	2-50 yrs	2,285	841	1,444
Construction in Progress	N/A	2,907	N/A	2,907
Buildings, Other Structures and Facilities	10-50 yrs	8,319	4,074	4,245
Equipment:				
Information Technology Equipment	5 yrs	1,027	756	271
Aircraft	20 yrs	5,623	2,680	2,943
Vessels	5-30 yrs	8,261	3,737	4,524
Vehicles	5-15 yrs	1,042	883	159
Other Equipment	5 yrs	7,185	4,871	2,314
Assets Under Capital Lease	2-20 yrs	80	57	23
Leasehold Improvements	2-50 yrs	2,104	1,162	942
Internal Use Software	2-13 yrs	4,281	3,262	1,019
Internal Use Software - in Development	N/A	134	N/A	134
Total General Property, Plant, and Equipment, Net		\$ 43,543	\$ 22,323	\$ 21,220

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12. Stewardship Property, Plant, and Equipment

DHS's Stewardship PP&E is comprised of items held by USCG, CBP, USCIS, TSA, FEMA, S&T, USSS, FLETC, and ICE. These heritage assets are located in the United States, and the Commonwealth of Puerto Rico. Collection-type heritage assets are presented in either number of collections or number of individual items, while non collection-type and multi-use heritage assets are presented in number of individual units. Heritage assets as of September 30 consisted of the following:

2017	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
USSS	2	-	-	2
Non Collection-type Assets				
USCG	73	-	(2)	71
S&T	1	-	-	1
FLETC	1	-	-	1
Multi-use Heritage Assets				
USCG	113	-	(8)	105
CBP	4	-	-	4
FEMA	1	-	-	1
ICE	-	1	-	1
Total Stewardship PP&E	223	1	(10)	214

2016	Beginning Balance	Additions	Withdrawals	Total
Collection-type Assets				
USCG	9	-	-	9
CBP	2	-	-	2
USCIS	5	-	-	5
TSA	11	-	-	11
S&T	1	-	-	1
USSS	2	-	-	2
Non Collection-type Assets				
USCG	73	-	-	73
S&T	1	-	-	1
FLETC	-	1	-	1
Multi-use Heritage Assets				
USCG	117	-	(4)	113
CBP	4	-	-	4
FEMA	1	-	-	1
Total Stewardship PP&E	226	1	(4)	223

The Department's Stewardship PP&E consists of documents, historical artifacts, immigration and naturalization files, artwork, buildings, and structures, which are unique due to historical, cultural, artistic, or architectural significance, and are used to preserve and provide an education on the Department's history and tradition. Generally, these heritage assets are not included in general PP&E presented on the Balance Sheet. Components define collection-type assets as either individual items, or an aggregate of items grouped by location or category, depending on mission, types of assets, materiality considerations, and how the Component manages the assets. Additions are derived from many sources, including gifts from current or former personnel or the general public, bequests, and transfers from other federal agencies. As assessments are made of heritage assets, individual items are withdrawn from a collection when they have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation. Individual items are also withdrawn when curatorial staff determines that an artifact does not meet the needs of the collection, or the characteristics of a heritage asset.

Collection-type Heritage Assets. The Department classifies items maintained for exhibition or display as collection-type heritage assets. As the lead agency ensuring a safe, secure, and resilient homeland, the Department uses this property for the purpose of educating individuals about its history, mission, values, and culture.

USCG collection-type heritage assets are defined by groups of items categorized as artifacts, artwork, and display models, located at USCG Headquarters, the USCG Academy, and all other locations, such as field units. Each collection of the three types of assets located at the three aforementioned locations is considered one collection-type asset. Artifacts include ships' equipment (sextants, bells, binnacles, etc.), decommissioned aids-to-navigation and communication equipment (buoy bells, lighthouse lenses, lanterns, etc.), personal-use items (uniforms and related accessories), and ordnance (cannons, rifles, and Lyle guns). Artwork consists of the USCG's collection of World War II combat art, as well as modern art depicting both historical and modern USCG activities. Display models are mostly of USCG vessels and aircraft. These are often builders' models acquired by the USCG as part of the contracts with the ship or aircraft builders.

CBP collection-type heritage assets are categorized and grouped into two collections: documents, and artifacts. Documents consist of dated port records, CBP regulations, and ledgers of Collectors of Customs. Artifacts include antique scales, dated pictures of Customs inspectors, aged tools used to sample imported commodities such as wood bales and bulk grain, and dated Customs uniforms, badges, and stamps.

USCIS collection-type heritage assets consist of an archive of five collections of different types of immigration and naturalization files that can be used to trace family lineages. USCIS has established the USCIS Genealogy Program to allow the public access to the records on a fee-for-service basis. Archived records available through the USCIS Genealogy Program include naturalization certificate files, alien registration forms, visa files, registry files, as well as alien files numbered below eight million and documents dated prior to May 1951.

TSA collection-type heritage assets include six architectural or building artifacts, and five aviation security technology items. The architectural or building artifacts include a collection of concrete pieces that belonged to the western wall of the Pentagon, a collection of subway rails

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from the Port Authority Trans-Hudson subway station located below the World Trade Center, and four individual artifacts related to the steel structure and facade of the World Trade Center Towers that were destroyed by the terrorist attacks of September 11, 2001. The five aviation security technology items include two walk through metal detectors, two X-ray machines, and an explosives trace detection portal machine. These items are preserved as aviation security technology equipment that was used to screen the individuals who carried out the September 11, 2001 terrorist attacks. As the lead agency protecting the Nation's transportation systems to ensure freedom of movement for people and commerce, TSA uses this property for the purpose of educating individuals about its history, mission, values, and culture.

S&T maintains one collection-type heritage asset—the fourth-order Fresnel lens from the historic Plum Island lighthouse. The lens was an integral part of the Plum Island lighthouse, which is listed in the National Register of Historic Places. The lens is on loan for display at the East End Seaport Museum in Greenport, New York.

USSS collection-type heritage assets are categorized into a collection of historical artifacts—including records, photographs, documents, and other items pertaining to the history of the USSS—and a collection of historical vehicles pertaining to the history of presidential transportation. Historical artifacts are maintained, stored, or displayed in the USSS archives and in the Secret Service Exhibit Hall. The vehicles are displayed at the James J. Rowley Training Center in Laurel, Maryland, or on loan to Presidential libraries. These items are used to educate employees and their guests about the USSS's dual missions of investigations and protection.

Non Collection-type Heritage Assets. The Department also maintains non collection-type heritage assets that are unique for historical or natural significance, as well cultural, educational, or artistic importance.

USCG non collection-type heritage assets include buildings, structures, sunken vessels, and aircraft. Buildings and structures such as lighthouses and monuments are classified as non collection-type heritage assets in accordance with SFFAS No. 29, *Heritage Assets and Stewardship Land*. Sunken vessels and aircraft are classified as noncollection-type heritage assets, as stipulated in the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, Sunken Military Craft Act, and the sovereign immunity provisions of admiralty law. Despite the passage of time or the physical condition of these assets, they remain government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members lost at sea, to prevent the unauthorized handling of explosives or ordnance that may be aboard, and to preserve culturally valuable artifacts of the USCG.

S&T non collection-type heritage assets consist of the Plum Island Lighthouse, located in the Plum Island Animal Disease Center, Orient Point, New York. The Plum Island Lighthouse is listed on the National Register of Historic Places.

FLETC non collection-type heritage assets consist of a memorial associated with the World Trade Center located in Glynco, Georgia. The memorial integrates a piece of steel from the World Trade Center's steel structure into the overall design. The memorial is the primary site

for student graduations from the FLETC, and also a venue for various special events, linking the FLETC mission and training efforts to this past tragedy.

Multi-Use Heritage Assets. When heritage assets are functioning in operational status, the Department classifies these as multi-use heritage assets in accordance with SFFAS No. 6, *Accounting for Property, Plant and Equipment*. All multi-use heritage assets are reflected on the Balance Sheet as general PP&E and are depreciated over their useful life. Some examples are historic lighthouses and buildings still in use. Deferred maintenance and condition information for heritage assets and general PP&E are presented in the required supplementary information. When multi-use heritage assets are no longer needed for operational purposes, they are reclassified as heritage assets, where most are transferred to other government agencies or public entities.

The USCG possesses a wide range of multi-use heritage assets, such as buildings, structures, and lighthouses that have historical and cultural significance.

CBP has four multi-use heritage assets located in Puerto Rico, which consist of customs houses that facilitate the collection of revenue for the Department.

FEMA has one multi-use heritage asset, the National Emergency Training Center, which is used by the Emergency Management Institute and the U.S. Fire Administration's National Fire Academy for training in Emmitsburg, Maryland.

ICE has one multi-use heritage asset, a property consisting of 3.2 acres located along the southern coastline of the island of Oahu, in Honolulu, Hawaii. The ICE Honolulu Facility is a historic site included in the National Register of Historic Places.

13. Other Assets

Other Assets at September 30 consisted of the following (in millions):

	2017	2016
Intragovernmental:		
Advances and Prepayments	\$ 1,003	\$ 543
Total Intragovernmental	<u>1,003</u>	<u>543</u>
Public:		
Advances and Prepayments	688	690
Other Assets	2	1
Total Public	<u>690</u>	<u>691</u>
Total Other Assets	<u>\$ 1,693</u>	<u>\$ 1,234</u>

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14. Liabilities Not Covered by Budgetary Resources

Liabilities Not Covered by Budgetary Resources at September 30 consisted of the following (in millions):

	2017	2016
Intragovernmental:		
Debt (Note 15)	\$ 30,425	\$ 23,000
Due to the General Fund (Note 18)	2,951	3,027
Accrued FECA Liability (Note 18)	407	402
Other	188	183
Total Intragovernmental	33,971	26,612
Public:		
Federal Employee and Veterans' Benefits:		
Actuarial FECA Liability (Note 16)	2,882	2,752
Military Service and Other Retirement Benefits (Note 16)	55,833	55,276
Environmental and Disposal Liabilities (Note 17)	435	452
Other:		
Accrued Payroll and Benefits (Note 18)	1,412	1,374
Contingent Legal Liabilities (Note 21)	471	365
Capital Lease Liability (Note 19)	27	31
Other	45	69
Total Public	61,105	60,319
Total Liabilities Not Covered by Budgetary Resources	95,076	86,931
Liabilities Covered by Budgetary Resources	26,417	14,579
Total Liabilities	\$ 121,493	\$ 101,510

The Department anticipates that the portion of the liabilities listed above will be funded from future budgetary resources when required, except for amounts due to the general fund, which is funded by future custodial collections. The remaining liabilities are covered by current budgetary resources.

15. Debt

Debt at September 30 and activity for fiscal years ended FY 2017 and 2016 consisted of the following (in millions):

Debt to the Treasury General Fund:	2017	2016
NFIP:		
Beginning Balance	\$ 23,000	\$ 23,000
New Borrowing	7,425	-
Ending Balance	<u>30,425</u>	<u>23,000</u>
Credit Reform:		
Beginning Balance	17	20
New Borrowing	2	1
Repayments	(4)	(4)
Ending Balance	<u>15</u>	<u>17</u>
Total Debt	<u>\$ 30,440</u>	<u>\$ 23,017</u>

The Department's intragovernmental debt is owed to Treasury and consists of borrowings to finance FEMA's NFIP and DADLP.

NFIP loans can have up to a 10-year term. Interest rates are obtained from Treasury and range by cohort year from 0.625 percent to 2.5 percent as of September 30, 2017, and from 0.375 percent to 2.5 percent as of September 30, 2016. Interest is paid semi-annually on March 31 and September 30. The total interest paid for the year was \$394 million and \$345 million as of September 30, 2017 and 2016, respectively. Interest is accrued based on the loan balances reported. Principal repayments are required only at maturity but are permitted any time during the term of the loan. The loan and interest payments are financed by the flood premiums from policyholders. Given the current rate structure, FEMA will not be able to pay its debt from the premium revenue alone; therefore, FEMA does not anticipate repaying the debt. As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted a supplemental appropriation for disaster relief on October 26, 2017. The Act directs Treasury to cancel \$16,000 million of the \$30,425 million debt of NFIP to Treasury. For additional information, see Note 31, Subsequent Events.

In accordance with the requirements established by the Biggert-Waters Flood Insurance Reform Act of 2012, FEMA reports on the status of the debt; interest paid since 2005, and principal repayments to OMB and Congress on a quarterly basis.

Under Credit Reform, the unsubsidized portion of direct loans is borrowed from Treasury. The repayment terms of FEMA's borrowing are based on the life of each cohort of direct loans. Proceeds from collections of principal and interest from the borrowers are used to repay Treasury. In addition, an annual re-estimate is performed to determine any change from the original subsidy rate. If an upward re-estimate is determined to be necessary, these funds are available through permanent indefinite authority, which is to be approved by OMB. Once these

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funds are appropriated, the original borrowings are repaid to Treasury. The weighted average interest rates for FY 2017 and FY 2016 were 1.89 percent and 2.37 percent, respectively.

16. Federal Employee and Veterans' Benefits

Accrued liability for military service and other retirement and employment benefits at September 30 consisted of the following (in millions):

	2017	2016
USCG Military Retirement and Healthcare Benefits	\$ 50,741	\$ 49,778
USSS DC Pension Plan Benefits	5,092	5,498
Actuarial FECA Liability	2,882	2,752
Total Federal Employee and Veterans' Benefits	\$ 58,715	\$ 58,028

A. Reconciliation of Beginning and Ending Liability Balances for Pensions, and ORB

The reconciliation of beginning and ending liability balances for pensions, and ORB for the year ended September 30 consisted of the following (in millions):

For the Year Ended September 30, 2017:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	\$ 44,472	\$ 5,306	\$ 5,498	\$ 55,276
Expenses:				
Normal Cost	1,216	256	-	1,472
Interest on the Liability Balance	1,670	229	127	2,026
Actuarial Losses/(Gains):				
From Experience	(599)	26	(54)	(627)
From Assumption Changes	(801)	575	(268)	(494)
Total Expense	1,486	1,086	(195)	2,377
Less Amounts Paid	1,375	234	211	1,820
Ending Liability Balance	\$ 44,583	\$ 6,158	\$ 5,092	\$ 55,833

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For the Year Ended September 30, 2016:	USCG Military Retirement System	USCG Military Health System	USSS Uniformed Division and Special Agent Pension	Total
Beginning Liability Balance:	\$ 42,452	\$ 5,717	\$ 5,624	\$ 53,793
Expenses:				
Normal Cost	1,289	224	-	1,513
Interest on the Liability Balance	1,753	208	137	2,098
Actuarial Losses/(Gains):				
From Experience	(554)	(22)	(54)	(630)
From Assumption Changes	813	(622)	43	234
Other	69	11	-	80
Total Expense	3,370	(201)	126	3,295
Less Amounts Paid	1,350	210	252	1,812
Ending Liability Balance	\$ 44,472	\$ 5,306	\$ 5,498	\$ 55,276

USCG Military Retirement System and Military Health System. The USCG's military service members (both current active component and reserve component) participate in the MRS. The USCG receives an annual "Retired Pay" appropriation to fund MRS benefits. The retirement system allows voluntary retirement with retired pay and benefits for active component members upon credit of at least 20 years of active service at any age. Reserve component members may retire after 20 years of creditable service with retired pay and health benefits beginning at age 60. Reserve component members may qualify for retired pay at an earlier age (but not earlier than age 50) if they perform certain active service after January 28, 2008.

The USCG's MHS is a post-retirement medical benefit plan that covers all active component and reserve component members of the USCG. The accrued MHS liability is for the healthcare of non-Medicare eligible retirees and beneficiaries. Effective October 1, 2002, the USCG transferred its liability for the healthcare of Medicare eligible retirees/beneficiaries to the DOD MERHCF, which was established to finance the healthcare benefits for the Medicare-eligible beneficiaries of all DOD and non-DOD uniformed services.

The actuarial accrued liability represents both retired pay for retirees, and healthcare benefits for non-Medicare eligible retirees/survivors. The present value of future benefits is the actuarial present value of the future payments that are expected to be paid under the retirement plan's provisions. Credited service is the years of service from active duty base date (or constructive date in the case of active duty reservists) to date of retirement measured in years and completed months. The actuarial accrued liability is the portion of the present value of the future benefits expected to be paid that is attributed to past service (service by participants rendered prior to the date of determination). USCG plan participants may retire after 20 years of active service at any age with annual benefits equal to 2.5 percent of retired base pay for each year of creditable active service under the legacy retirement program; the

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formula is 2.0 percent for those covered under BRS. The retired pay base depends upon the date of initial entry into military service (DIEMS). For DIEMS of September 8, 1980, or later, the retired pay base would be the mean of the highest 36 months of basic pay earned (or would have earned if on active duty). For DIEMS of September 7, 1980, or earlier, the retired pay base would be the basic pay rate in effect on the first day of retirement (if a commissioned officer or an enlisted member) or the basic pay rate in effect on the last day of active duty before retirement (if a warrant officer). Personnel who became members after August 1, 1986, may elect to receive a \$30,000 career status bonus after 15 years of service in return for reductions in retired pay. The career status bonus election cannot be made after December 31, 2017.

If a USCG member is disabled, the member is entitled to disability benefits, provided (1) the disability is at least 30 percent under a Department of Veterans Affairs (VA) Schedule of Rating Disability and (2) the disability results from injuries or illnesses incurred in the line of duty. Disability retired pay is equal to the basic pay (as of the separation date) multiplied by the larger of the VA disability rating or 2.5 percent times the years of creditable service (2.0 percent for members covered under BRS).

The significant actuarial assumptions used to compute the accrued pension and healthcare liability are as follows:

1. DOD decrement tables are used only for mortality. These mortality rates are then adjusted in future years, in accordance with the MP-2016 Mortality Improvement Scale developed by the Society of Actuaries. Disability, withdrawal, and retirement tables reflecting actual USCG experience were developed based on an USCG experience study dated February 25, 2015.
2. Cost of living increases for the retirement plan are 2.38 percent, based on a ten-year average of the Treasury Breakeven Inflation yield curve, which combines other Treasury rates to estimate the rate of inflation.
3. Healthcare cost increase assumptions are based on the annual liability report provided by DOD and vary, depending on the year and type of care.
4. The discount rate percent is determined in accordance with SFFAS No. 33 and is calculated independently for pensions and healthcare. The current discount rate is 3.83 percent for the retirement system and 3.79 percent for the health system.
5. Rates of salary increases are 2.10 percent annually, based on a ten-year average of past increases. This is in addition to assumed Merit Pay increases that reflect longevity increases, promotions, and advancements. The Merit Pay Table was modified in 2017, using actual USCG experience over the past six years.
6. Medical claims costs only affect the healthcare valuation and are the primary component of the per capita, age-based costs that are used—in combination with the healthcare cost increase assumptions—to project future retiree medical claims.

USSS Uniformed Division and Special Agent Pension. Special agents and other USSS personnel in certain job series hired as civilians before January 1, 1984, are eligible to transfer to the District of Columbia Police Officers' and Firefighters' Retirement Plan (DC Pension Plan) after completion of 10 years of U.S. Secret Service employment and 10 years of protection-related experience. All uniformed USSS officers who were hired before January 1, 1984, are automatically covered under this retirement system. Participants in the DC Pension Plan make contributions of 7 percent of base pay with no matching contribution made by USSS.

Annuitants of this plan receive benefit payments directly from the DC Pension Plan. USSS reimburses the District of Columbia for the difference between benefits provided to the annuitants and payroll contributions received from current employees. This liability is presented as a component of the liability for military service and other retirement benefits in the accompanying Balance Sheet. SFFAS No. 5 requires the administrative entity (administrator) to report the actuarial liability. However, USSS records a liability because the administrator (the DC Pension Plan) is not a federal entity and as such the liability for future funding would not otherwise be recorded in the government-wide consolidated financial statements.

The primary actuarial assumptions used to determine the liability at September 30, 2017, are as follows:

1. Life expectancy is based upon the RP-2014 Mortality Table, with the projection using the MP-2016 Mortality Improvement Scale.
2. Rates of salary increases are 0 percent annually because the vast majority of plan participants have already retired.
3. The discount rate calculated in accordance with SFFAS No. 33 is 2.5 percent.
4. Rates of withdrawal for active service by gender and age.

B. Actuarial FECA Liability

The actuarial FECA liability represents the estimated liability for future workers' compensation and includes the expected liability for death, disability, medical, and miscellaneous costs for approved cases. Future workers' compensation estimates for the future cost of approved compensation cases, which are generated from an application of actuarial procedures developed by DOL, were approximately \$2,882 million and \$2,752 million at September 30, 2017 and 2016, respectively.

17. Environmental and Disposal Liabilities

Environmental and disposal liabilities at September 30, 2017 and 2016 are \$437 million and \$454 million, respectively. The Department is responsible for remediating its sites with environmental contamination and is party to various administrative proceedings, legal actions, and tort claims that may result in settlements or decisions adverse to the Federal Government. The source of remediation requirements to determine the environmental liability is based on compliance with federal, state, or local environmental laws and regulations. The major federal laws covering environmental response, cleanup, and monitoring are the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (Pub. L. 96-510) and the Resource Conservation and Recovery Act (Pub. L. 94-580).

The Department's environmental liabilities are due to light stations, lighthouses, long-range navigation, fuel storage tanks, underground storage tanks, buildings containing asbestos and/or lead-based paint, firing ranges, fuels, solvents, industrial chemicals, and other environmental cleanup associated with normal operations. Asbestos-related liabilities are those for the abatement of both friable and nonfriable asbestos.

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Cost estimates for environmental and disposal liabilities are subject to revision as a result of changes in inflation, technology, environmental laws and regulations, and plans for disposal.

18. Other Liabilities

Other Liabilities consisted of the following (in millions):

As of September 30, 2017:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund (Note 14)	\$ 3,020	\$ -	\$ 3,020
Accrued FECA Liability (Note 14)	148	259	407
Advances from Others	37	-	37
Employer Benefits Contributions and Payroll Taxes	241	-	241
Other Intragovernmental Liabilities	222	7	229
Total Intragovernmental Other Liabilities	\$ 3,668	\$ 266	\$ 3,934
Public:			
Accrued Payroll and Benefits (See B. below)	\$ 2,276	\$ -	\$ 2,276
Deferred Revenue and Advances from Others (See B. below)	5,589	210	5,799
Insurance Liabilities (Note 20)	11,826	505	12,331
Refunds and Drawbacks	202	-	202
Contingent Legal Liabilities (Note 21)	87	386	473
Capital Lease Liability (Note 19)	5	23	28
Other	2,569	11	2,580
Total Other Liabilities with the Public	\$ 22,554	\$ 1,135	\$ 23,689
Total Other Liabilities	\$ 26,222	\$ 1,401	\$ 27,623

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As of September 30, 2016:	Current	Non-Current	Total
Intragovernmental:			
Due to the General Fund	\$ 3,098	\$ -	\$ 3,098
Accrued FECA Liability	133	269	402
Advances from Others	65	-	65
Employer Benefits Contributions and Payroll Taxes	223	-	223
Other Intragovernmental Liabilities	199	8	207
Total Intragovernmental Other Liabilities	\$ 3,718	\$ 277	\$ 3,995
Public:			
Accrued Payroll and Benefits (See B. below)	\$ 2,114	\$ -	\$ 2,114
Deferred Revenue and Advances from Others (See B. below)	2,568	1,227	3,795
Insurance Liabilities (Note 20)	3,068	128	3,196
Refunds and Drawbacks	190	-	190
Contingent Legal Liabilities (Note 21)	77	292	369
Capital Lease Liability (Note 19)	5	27	32
Other	2,432	20	2,452
Total Other Liabilities with the Public	\$ 10,454	\$ 1,694	\$ 12,148
Total Other Liabilities	\$ 14,172	\$ 1,971	\$ 16,143

A. Intragovernmental Other Liabilities

Due to the General Fund. Amounts due to the Treasury general fund primarily represent duty, tax, and fees collected by CBP to be remitted to various general fund accounts maintained by Treasury.

Workers' Compensation. Claims incurred for the benefit of Department employees under FECA are administered by DOL and are ultimately paid by the Department. The accrued FECA liability represents money owed for current claims. Reimbursement to DOL for payments made occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the Department as part of its annual appropriation from Congress in the year in which the reimbursement takes place. Workers' compensation expense was \$207 million and \$217 million, respectively, for the fiscal years ended September 30, 2017 and 2016.

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B. Other Liabilities with the Public

Accrued Payroll and Benefits. Accrued Payroll and Benefits at September 30 consisted of the following (in millions):

	2017	2016
Accrued Funded Payroll and Benefits	\$ 753	\$ 640
Accrued Unfunded Leave	1,412	1,372
Unfunded Employment Related Liabilities	-	2
Other	111	100
Total Accrued Payroll and Benefits	\$ 2,276	\$ 2,114

Deferred Revenue and Advances from Others. Deferred Revenue and Advances from Others for the years ended September 30 consisted of the following (in millions):

	2017	2016
USCIS Application Fees	\$ 2,166	\$ 1,230
FEMA Unearned NFIP Premium	3,604	2,549
Advances from Others	29	16
Total Deferred Revenue	\$ 5,799	\$ 3,795

USCIS' deferred revenue relates to fees received at the time of filing for applications or petitions for immigration and naturalization benefits that are recognized when the application or petition is adjudicated. In FY 2017, USCIS prospectively changed its methodology for allocating application fee deferred revenue between current and non-current liabilities to be based on processing time data for average adjudication times. As a result, a significant portion of the fees deferred revenue is classified as current rather than non-current liabilities, based on processing times of less than 12 months.

FEMA's deferred revenue relates to 1) unearned NFIP premiums recognized over the life of the insurance policy, which can be either one-year or three-years, and 2) deferred revenue for reinsurance agreements. Under the Biggert-Waters Flood Insurance Reform Act of 2012 and the Homeowners Flood Insurance Affordability Act of 2014, FEMA gained the authority to secure reinsurance from the private reinsurance and capital markets. In January 2017, FEMA expanded its September 2016 placement and executed the 2017 reinsurance agreement with a consortium of 25 reinsurers representing some of the largest insurance and reinsurance groups around the globe. A combined total of \$1,042 million of the NFIP's flood risk was transferred to the private reinsurance market through this agreement. Due to the size and scope of the 2017 hurricane-related flood disasters, FEMA is projected to meet the loss thresholds and has accordingly recorded a receivable and deferred revenue for the full \$1,042 million as of September 30, 2017.

Other Liabilities. Other public liabilities consist primarily of immigration bonds, deposit and suspense fund liability.

19. Leases

A. Operating Leases

The Department leases various facilities and equipment accounted for as operating leases. Leased items consist of offices, warehouses, vehicles, and other equipment. The majority of office space occupied by the Department is either owned by the Federal Government or is leased by GSA from commercial sources. The estimated future lease payments for noncancellable operating leases are based on lease contract terms, considering payments made during the year ended September 30, 2017.

As of September 30, 2017, estimated future minimum lease commitments for noncancellable operating leases were as follows (in millions):

	Land and Buildings
FY 2018	\$ 480
FY 2019	423
FY 2020	401
FY 2021	365
FY 2022	326
After FY 2022	2,534
Total Future Minimum Lease Payments	\$ 4,529

The Department also enters into cancellable lease agreements with GSA for which lease terms frequently exceed one year. The Department is not committed to continue paying rent to GSA beyond the period occupied, providing that proper advance notice to GSA is made, unless the space occupied is designated as unique to Department operations. However, the Department normally continues to occupy the leased space from GSA for an extended period of time with little variation from year to year. Lease charges are adjusted annually to reflect operating costs incurred by GSA.

B. Capital Leases

The Department maintains capital leases for buildings and commercial software license agreements. The liabilities associated with capital leases and software license agreements are presented as other liabilities in the accompanying financial statements based upon the present value of the future minimum lease payments.

Certain license agreements are cancellable depending on future funding. Substantially all of the net present value of capital lease obligations and software license agreements will be funded from future sources.

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As of September 30, the summary of assets under capital lease was as follows (in millions):

	2017	2016
Land and Buildings	\$ 68	\$ 68
Software	11	11
Vehicles and Equipment	1	1
Accumulated Amortization	(61)	(57)
Assets under Capital Lease, Net	\$ 19	\$ 23

The estimated future lease payments for capital leases are based on lease contract terms. As of September 30, 2017, estimated future minimum lease payments under capital leases, were as follows (in millions):

	Land and Buildings
FY 2018	\$ 6
FY 2019	6
FY 2020	6
FY 2021	6
FY 2022	6
After FY 2022	3
Total Future Minimum Lease Payments	33
Less: Imputed Interest and Executory Costs	(5)
Total Capital Lease Liability	\$ 28

20. Insurance Liabilities

The insurance liability for unpaid losses and related loss adjustment expenses and amounts paid for the year ended September 30 consisted of the following (in millions):

	2017	2016
Beginning Balance	\$ 3,196	\$ 743
Change in Incurred Losses		
Change from Events of the Current Year	13,443	4,758
Change from Events of Prior Years	487	212
Less: Amounts Paid During Current Period		
Paid for Events of the Current Year	(1,391)	(1,942)
Paid for Events of Prior Years	(3,404)	(575)
Total Insurance Liability	\$ 12,331	\$ 3,196

Insurance liabilities consist of NFIP claim activity. This claim activity represents an estimate of NFIP loss and loss adjustment expense factors inherent in the NFIP insurance underwriting operations experience and expectations. Estimation factors used by the insurance underwriting operations reflect current case basis estimates and give effect to estimates of trends in claim severity and frequency. These estimates are periodically reviewed, and adjustments, reflected in current operations, are made as necessary.

Insurance liabilities are covered by a permanent and indefinite appropriation, which is available to pay all valid claims after adjudication. Accordingly, these insurance liabilities are covered by budgetary resources. As a result of the major Hurricanes Harvey, Irma, and Maria in August and September 2017, and the related flooding, there was a significant increase in insurance liabilities.

21. Commitments and Contingent Liabilities

A. Contingent Legal Liabilities

The Department is a party in various administrative proceedings, legal actions, and tort claims that may ultimately result in settlements or decisions adverse to the Federal Government. These contingent liabilities arise in the normal course of operations, and their ultimate disposition is unknown.

In the opinion of the Department's management and legal counsel, based on information currently available, the expected outcome of legal actions, individually or in the aggregate, are summarized in the categories below (in millions).

	Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End
FY 2017			
Probable	\$ 473	\$ 473	\$ 584
Reasonably Possible		\$ 457	\$ 1,217
FY 2016			
Probable	\$ 369	\$ 369	\$ 551
Reasonably Possible		\$ 521	\$ 1,075

The claims above generally relate to the Federal Tort Claims Act (Pub. L. 79-601), OSLTF, personnel grievances, and various customs laws and regulations. The estimated contingent liability recorded in the accompanying financial statements as of September 30, 2017, and 2016, was \$473 million and \$369 million, respectively, of which \$2 million and \$4 million, respectively, was funded.

As of September 30, 2017, and 2016, legal claims exist for which the potential range of loss could not be determined; however, the total amount claimed is not material to the financial statements. In addition, other claims exist for which the amount claimed and the potential range of loss could not be determined.

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B. Duty and Trade Refunds

There are various trade-related matters that fall under the jurisdiction of other federal agencies, such as the Department of Commerce, which may result in refunds of duties, taxes, and fees from CBP refunds and drawbacks. Until a decision is reached by the other federal agencies, CBP does not have sufficient information to estimate a contingent liability amount. All known duty and trade refunds as of September 30, 2017 and 2016 have been recorded.

C. Loaned Aircraft and Equipment

The Department is generally liable to DOD for damage or loss to aircraft on loan to CBP and vessels on loan to the USCG. As of September 30, 2017 and 2016, CBP had 16 aircraft on loan from DOD with a total replacement value of up to \$23 million per aircraft. As of September 30, 2017, and 2016 the USCG had four vessels on loan from DOD with a total replacement value of \$48 million.

D. Other Contractual Arrangements

In addition to future lease commitments disclosed in Note 19, the Department is committed under contractual agreements for goods and services that have been ordered but not yet received (undelivered orders) at fiscal year-end. Aggregate undelivered orders for all Department activities are disclosed in Note 28. In accordance with the National Defense Authorization Act for Fiscal Year 1991 (Pub. L. 101-510), the Department is required to automatically cancel obligated and unobligated balances of appropriated funds five years after a fund expires. Obligations that have not been paid at the time an appropriation is cancelled may be paid from an unexpired appropriation that is available for the same general purpose. As of September 30, 2017 and 2016, the Department estimates total payments related to cancelled appropriations to be \$213 million and \$194 million, respectively, of which \$162 million and \$112 million, respectively, may require future funding.

TSA maintains five letters of intent (LOIs) for modifications to airport facilities in which TSA uses cost-sharing agreements with the airports to modify the facilities for checked baggage screening projects. An LOI, though not a binding commitment of federal funding, represents TSA's intent to provide the agreed-upon funds in future years if the agency receives sufficient appropriations to cover the agreement. TSA received \$200 million to fund LOIs in each of FY 2017 and FY 2016. These funds are available for payment to the airports upon approval by TSA of an invoice for the modification costs incurred. As of September 30, 2017 and 2016, TSA received invoices or documentation for costs incurred totaling \$40 million and \$85 million, respectively, for unpaid invoices.

22. Funds from Dedicated Collections

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, as amended by SFFAS No. 43, *Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27*, defines the following three criteria for determining a fund from dedicated collections: 1) a statute committing the Federal Government to use specifically identified revenue and/or other financing sources that are originally provided to the Federal Government by a non-federal source only for designated activities, benefits, or purposes; 2) explicit authority for the fund to retain revenue and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenue and/or other financing sources that distinguished the fund from the Federal Government's general revenue.

A fund from dedicated collection may contain non-federal sources of revenue and other financing sources that are material to the reporting entity provided it meets the criteria reported above.

Intradepartmental activity reported in a fund from dedicated collection is often offset with activity in other funds. Accordingly, the Department presents information for funds from dedicated collections and all other funds in the Balance Sheets and Statements of Changes in Net Position on a combined basis. The elimination of intradepartmental activity between dedicated collections and all other funds is presented in the Statements of Changes of Net Position.

Funds from dedicated collections consisted of the following (in millions):

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Funds from Dedicated Collections (in millions) (page 1 of 2)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2017								
ASSETS								
Fund Balance with Treasury	\$ 423	\$ 9	\$ 2,628	\$ 7,539	\$ 49	\$ 1,407	\$ 1,525	\$ 13,580
Investments, Net	-	1,928	-	-	5,683	-	3	7,614
Accounts Receivable	346	109	7	1,043	1,588	-	124	3,217
Other	-	-	595	861	2	11	42	1,511
Total Assets	\$ 769	\$ 2,046	\$ 3,230	\$ 9,443	\$ 7,322	\$ 1,418	\$ 1,694	\$ 25,922
LIABILITIES								
Other Liabilities	\$ 17	\$ 1,244	\$ 2,663	\$ 46,796	\$ 199	\$ 244	\$ 74	\$ 51,237
Total Liabilities	\$ 17	\$ 1,244	\$ 2,663	\$ 46,796	\$ 199	\$ 244	\$ 74	\$ 51,237
NET POSITION								
Cumulative Results of Operations	\$ 752	\$ 802	\$ 567	\$ (37,353)	\$ 7,123	\$ 1,174	\$ 1,620	\$ (25,315)
Total Liabilities and Net Position	\$ 769	\$ 2,046	\$ 3,230	\$ 9,443	\$ 7,322	\$ 1,418	\$ 1,694	\$ 25,922
Statement of Net Cost for the Year Ended September 30, 2017								
Gross Program Costs	\$ 716	\$ 111	\$ 3,794	\$ 15,857	\$ 52	\$ 199	\$ 1,428	\$ 22,157
Less: Earned Revenue	-	-	(2,945)	(4,326)	(31)	(250)	(694)	(8,246)
Net Cost of Operations	\$ 716	\$ 111	\$ 849	\$ 11,531	\$ 21	\$ (51)	\$ 734	\$ 13,911
Statement of Changes in Net Position for the Year Ended September 30, 2017								
Net Position Beginning of Period	\$ 647	\$ 792	\$ 1,248	\$ (25,827)	\$ 6,615	\$ 1,193	\$ 1,492	\$ (13,840)
Net Cost of Operations	(716)	(111)	(849)	(11,531)	(21)	51	(734)	(13,911)
Non-exchange Revenue	806	636	-	2	642	-	382	2,468
Other	15	(515)	168	3	(113)	(70)	480	(32)
Change in Net Position	105	10	(681)	(11,526)	508	(19)	128	(11,475)
Net Position, End of Period	\$ 752	\$ 802	\$ 567	\$ (37,353)	\$ 7,123	\$ 1,174	\$ 1,620	\$ (25,315)

Funds from Dedicated Collections (in millions) (page 2 of 2)

	Customs User Fees	Sport Fish Restoration Boating Trust Fund	Immigration Examination Fees	National Flood Insurance Program	Oil Spill Liability Trust Fund	Aviation Security Capital Fund	All Other Funds from Dedicated Collections	Combined Funds from Dedicated Collections
Balance Sheet as of September 30, 2016								
ASSETS								
Fund Balance with Treasury	\$ 330	\$ 15	\$ 2,381	\$ 1,280	\$ 25	\$ 1,430	\$ 1,448	\$ 6,909
Investments, Net	-	1,911	-	1,175	4,973	-	1	8,060
Accounts Receivable	332	109	9	1	1,804	-	95	2,350
Other	-	-	489	701	2	8	26	1,226
Total Assets	\$ 662	\$ 2,035	\$ 2,879	\$ 3,157	\$ 6,804	\$ 1,438	\$ 1,570	\$ 18,545
LIABILITIES								
Other Liabilities	\$ 15	\$ 1,243	\$ 1,631	\$ 28,984	\$ 189	\$ 245	\$ 78	\$ 32,385
Total Liabilities	\$ 15	\$ 1,243	\$ 1,631	\$ 28,984	\$ 189	\$ 245	\$ 78	\$ 32,385
NET POSITION								
Cumulative Results of Operations	\$ 647	\$ 792	\$ 1,248	\$ (25,827)	\$ 6,615	\$ 1,193	\$ 1,492	\$ (13,840)
Total Liabilities and Net Position	\$ 662	\$ 2,035	\$ 2,879	\$ 3,157	\$ 6,804	\$ 1,438	\$ 1,570	\$ 18,545
Statement of Net Cost for the Year Ended September 30, 2016								
Gross Program Costs	\$ 677	\$ 116	\$ 3,375	\$ 6,777	\$ (25)	\$ 181	\$ 1,366	\$ 12,467
Less: Earned Revenue	-	-	(3,256)	(4,411)	(356)	(250)	(714)	(8,987)
Net Cost of Operations	\$ 677	\$ 116	\$ 119	\$ 2,366	\$ (381)	\$ (69)	\$ 652	\$ 3,480
Statement of Changes in Net Position for the Year Ended September 30, 2016								
Net Position Beginning of Period	\$ 549	\$ 801	\$ 1,200	\$ (23,463)	\$ 4,782	\$ 1,216	\$ 1,338	\$ (13,577)
Net Cost of Operations	(677)	(116)	(119)	(2,366)	381	69	(652)	(3,480)
Non-exchange Revenue	763	630	-	-	1,511	-	389	3,293
Other	12	(523)	167	2	(59)	(92)	417	(76)
Change in Net Position	98	(9)	48	(2,364)	1,833	(23)	154	(263)
Net Position, End of Period	\$ 647	\$ 792	\$ 1,248	\$ (25,827)	\$ 6,615	\$ 1,193	\$ 1,492	\$ (13,840)

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Customs User Fees

When signed in April 1986, COBRA (Pub. L. 99-272) requires CBP to collect user fees for certain services. The law initially established processing fees for air and sea passengers, commercial trucks, rail cars, private vessels and aircraft, commercial vessels, dutiable mail packages, and CBP broker permits. An additional fee category was added later that year for processing barges and bulk carriers for Canada and Mexico. These fees are deposited into Customs User Fees accounts (Treasury Account Fund Symbol (TAFS) 705695.30 and 70X5695).

In addition to the collection of user fees, other changes in CBP procedures were enacted due to the COBRA statute. Most importantly, provisions were included for providing nonreimbursable inspectional overtime services and paying for excess pre-clearance costs from COBRA user fee collections.

The Customs and Trade Act of 1990 amended COBRA to provide for the hiring of inspectional personnel, the purchasing of equipment, and the covering of related expenses with any surplus monies available after overtime and excess pre-clearance costs are satisfied. Expenditures from the surplus can only be used to enhance the service provided to those functions for which fees are collected. The fees for certain customs services are provided by 19 USC 58c.

Effective November 5, 2011, section 601 of the United States-Colombia Trade Promotion Agreement Implementation Act of 2011 (Pub. L. 112-42) lifted the exemption that excluded air and sea passengers from Canada, Mexico, the Caribbean, and adjacent islands, from having to pay the COBRA air, sea, and cruise vessel passenger fees. COBRA Free Trade Agreement fees are deposited in the Customs User Fee accounts, and are available only to the extent provided in annual appropriations acts.

Sport Fish Restoration and Boating Trust Fund

The SFRBTF, previously known as the Aquatic Resources Trust Fund, was created by Section 1016 of the Deficit Reduction Act of 1984 (Pub. L. 98-369). Two funds were created under this Act, the Boating Safety Account and the Sport Fish Restoration Account. The Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (Pub. L. 109-59) later amended the Deficit Reduction Act of 1984 by combining the Boating Safety and the Sport Fish Restoration accounts into the SFRBTF. The SFRBTF has been the source of budget authority for the boat safety program for many years through the transfer of appropriated funds. The SFRBTF is a Treasury-managed fund and provides funding to states and other entities to promote boating safety and conservation of U.S. recreational waters.

This fund receives revenue transferred from custodial activities of the Treasury, which is deposited in a Treasury account. The revenue is derived from a number of sources, including motor boat fuel tax, excise taxes on sport fishing equipment, and import duties on fishing tackle and yachts. Three agencies share in the available portion of the revenue: Fish and Wildlife Service in the Department of Interior (TAFS 14X8151); the U.S. Army Corps of Engineers (TAFS 96X8333); and the USCG (TAFS 70X8149 and TAFS 70X8147).

The most recent reauthorizations of SFRBTF and expenditure of Boating Safety funds for the National Recreational Boating Safety Program were enacted in 2015 in the Fixing America's Surface Transportation Act (Pub. L. 114-94), in 2012 in the Moving Ahead for Progress in the 21st Century Act (Pub. L. 112-141), in 2005 in the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (Pub. L. 109-59) and the Sportfishing and Recreational Boating Safety Amendments Act of 2005 (Pub. L. 109-74).

Immigration Examination Fees

In 1988, Congress established the Immigration Examination Fee Account (IEFA), and the fees deposited into the IEFA have been the primary source of funding for providing immigration and naturalization benefits and other benefits as directed by Congress. The Immigration and Nationality Act (INA) (Pub. L. 82-414, Section 286(m)) provides for the collection of fees at a level that will ensure recovery of the costs of providing adjudication and naturalization services, including the costs of providing similar services without charge to asylum applicants and other immigrants. The INA also states that the fees may recover administrative costs. This revenue remains available to provide immigration and naturalization benefits and allows the collection, safeguarding, and accounting for fees.

The primary sources of revenue are the application and petition fees that are collected during the course of the fiscal year and deposited into the IEFA (TAFS 70X5088). In F 2017, USCIS updated the fees charged for many applications in accordance with our authority, 8 USC 1356 (m) "That fees for providing adjudication and naturalization services may be set at a level that will ensure recovery of the full costs of providing all such services..." In addition, USCIS provides specific services to other federal agencies, such as the provision of immigration status information under the Systematic Alien Verification for Entitlements program for use in adjudicating individuals' eligibility for public benefits, that results in the collection of revenue arising from intragovernmental activities.

National Flood Insurance Program

The NFIP was established by the National Flood Insurance Act of 1968 (Pub. L. 90-448). The purpose of NFIP is to better indemnify individuals for flood losses through insurance, reduce future flood damages through state and community floodplain management regulations, and reduce federal expenditures for disaster assistance and flood control.

The Flood Disaster Protection Act of 1973 (Pub. L. 93-234) expanded the authority of FEMA and its use of the NFIP to grant premium subsidies as an additional incentive to encourage widespread state, community, and property owner acceptance of the program requirements.

The National Flood Insurance Reform Act of 1994 (Pub. L. 103-325) reinforced the objective of using insurance as the preferred mechanism for disaster assistance by expanding mandatory flood insurance purchase requirements and by effecting a prohibition on further flood disaster assistance for any property where flood insurance, after having been mandated as a condition for receiving disaster assistance, is not in force.

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The Bunning-Bereuter-Blumenauer Flood Insurance Reform Act of 2004 (Pub. L. 108-264) provides additional tools for addressing the impact of repetitive loss properties on the National Flood Insurance Fund.

The Biggert-Waters Flood Insurance Reform Act of 2012 (Pub. L. 112-141) and the Homeowner Flood Insurance Affordability Act of 2014 (Pub. L. 113-89) amended the National Flood Insurance Act of 1968 to extend the NFIP, the financing for it, and established a National Flood Insurance Reserve Fund to meet the expected future obligations of the NFIP. The acts authorized FEMA to secure reinsurance coverage from private reinsurance and capital markets to maintain the financial ability of the program to pay claims from major flooding events. The reinsurance agreement places the NFIP in a better position to manage losses incurred that result from major flooding events.

The NFIP is an insurance program for which the Department pays claims to policyholders that experience flood damage due to flooding within the NFIP rules and regulations. The write your own (WYO) companies that participate in the program have authority to use departmental funds (revenue and other financing sources) to respond to the obligations to the policyholders. Congress has mandated that the premium collections be used only to pay claims and claims-related loss adjustment expenses caused by flooding.

The NFIP requires all partners (WYO companies) in the program to submit financial statements and statistical data to the third party service providers on a monthly basis. This information is reconciled, and the WYO companies are required to correct any variances.

The NFIP's primary source of revenue comes from premiums collected to insure policyholders' property. These resources are inflows to the Government and are not the result of intragovernmental flows. When claims exceed revenue, FEMA has borrowing authority that can be accessed to satisfy outstanding claims. The following TAFS are part of the NFIP: 70X4236, and 70X5701.

Oil Spill Liability Trust Fund

The OSLTF was originally established under section 9509 of the Internal Revenue Code of 1986. The Oil Pollution Act of 1990 (OPA) (Pub. L. 101-380) authorized the use of the money or the collection of revenue necessary for its maintenance.

Fund uses defined by the OPA include removal costs incurred by the USCG and the Environmental Protection Agency; state access for removal activities; payments to federal, state, and Indian tribe trustees to conduct natural resource damage assessments and restorations; payment of claims for uncompensated removal costs and damages; costs and expenses reasonably necessary for the implementation of OPA (subject to congressional appropriations); and other specific appropriations by the Congress.

The OSLTF includes two major funds managed by the USCG: the Principal Fund (TAFS 70X8185), and Payment of Claims (TAFS 70X8312). All revenue is deposited directly into the Principal Fund. The recurring and nonrecurring revenue is derived from a number of sources, including barrel tax, interest from U.S. Treasury investments, cost recoveries, and fines and penalties. Additionally, two of the six expenditure accounts are managed by the

USCG. These include Oil Spill Recovery (TAFS 70X8349) and Trust Fund Share of Expenses (TAFS 70_8314). Oil Spill Recovery funds the activities overseen by federal on-scene coordinators in response to covered discharges and the activities of federal trustees to initiate natural resource damage assessments. This account annually receives a \$50 million appropriation that remains available until expended. Trust Fund Share of Expenses receives annual appropriations from the OSLTF that are then distributed to the USCG Operating Expenses; Acquisition, Construction and Improvements; and Research, Development, Test and Evaluation appropriations. By statute, the maximum amount that can be expended from the OSLTF with respect to any single incident shall not exceed \$1,000 million, of which no more than \$500 million may be spent on natural resource damage. The maximum amount expended with respect to a single incident is net of amounts expended and amounts recovered.

On April 20, 2010, the offshore drilling platform, Deepwater Horizon, exploded and sank 52 miles southeast of Venice, Louisiana. An estimated 4.9 million barrels of oil leaked from the sunken platform's undersea ruptured pipe. The states of Louisiana, Mississippi, Alabama, Florida, and Texas were affected by the spill. On April 4, 2016, the U.S. District Court approved a settlement plan between the Department of Justice and BP. The consent decree requires BP to pay a penalty to the U.S. Government under a 15-year payment plan that requires annual payments beginning on April 4, 2017. Of the total amount owed to the U.S. Government, the OSLTF will receive a total of \$935 million plus interest. The final installment payment will be the accrued interest of \$60 million. In addition, BP was assessed \$374 million for unpaid costs and damages paid from the OSLTF through July 2, 2015, to be paid in annual installments over eight years beginning in 2016. No interest will be accrued on this amount. Although the Consent Decree has been approved, USCG has the authority to bill BP for response costs incurred since July 2, 2015 (the cutoff date for the Consent Decree), until all USCG federal on-scene coordinators response actions are complete.

Contingent Liabilities. The OSLTF, which is administered by the USCG National Pollution Funds Center (NPFC), may be available to pay claims for OPA specified costs and damages, not paid by BP, or another responsible party. Under OPA, claimants are required to present their claims first to the responsible parties (or the Gulf Coast Claims Facility for Deepwater Horizon costs); if the responsible party is not identified or denies the claims, the claimant may then file an action in court or file a claim against the OSLTF through the NPFC. For additional information, see Note 21, Commitments and Contingencies.

Aviation Security Capital Fund

Vision 100–Century of Aviation Reauthorization Act (Pub. L. 108-176) established the Aviation Security Capital Fund (TAFS 70X5385). The fund's revenue is derived from security service fees in accordance with 49 USC 44940. Annually, the first \$250 million derived from Aviation Security fees are deposited into this fund. TSA provides funding to airport sponsors for projects to (1) replace baggage conveyer systems related to aviation security, (2) reconfigure terminal baggage areas as needed to install explosives detection systems (EDS), (3) deploy EDS behind the ticket counter, in the baggage sorting area, or in line with the baggage handling system, and (4) make other airport security capital improvements.

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All Other Funds from Dedicated Collections

The balances and activity reported for all other funds from dedicated collections result from the funds listed below. Information related to these funds can be located in the Department's appropriations legislation or the statutes referenced.

- 70_0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X0715: Radiological Emergency Preparedness Program, Federal Emergency Management Agency, Department of Homeland Security; 117 Stat. 516
- 70X5089: U.S. Customs and Border Protection, Land Border Inspection Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70_5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5087: U.S. Customs and Border Protection, Immigration User Fees, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5126: Breach Bond/Detention Fund, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5378: Student and Exchange Visitor Program, Border and Transportation Security, Department of Homeland Security; 110 Stat. 3009-706, Sec. (e)(4)(B)
- 70X5382: Immigration User Fee Account, BICE, Department of Homeland Security; 116 Stat. 2135
- 70_5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5389: H-1B and L Fraud Prevention and Detection Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 118 Stat. 3357, Sec. 426(b)(1)
- 70X5390: Unclaimed Checkpoint Money, Transportation Security Administration, Department of Homeland Security; 118 Stat. 1317-1318, Sec. 515(a)
- 70X5451: Immigration Enforcement Account, Border and Transportation Security, Department of Homeland Security; 116 Stat. 2135
- 70X5542: Detention and Removal Operations, U.S. Immigration and Customs Enforcement, Department of Homeland Security; 8 USC 1356(m)-(n); Pub. L. 107-296, Sec. 476c
- 70X5545: Airport Checkpoint Screening Fund, Transportation Security Administration, Department of Homeland Security; Pub. L. 110-161
- 70X5595: Electronic System for Travel Authorization (ESTA) Fees, U.S. Customs and Border Protection, Department of Homeland Security; Pub. L. 110-53, 121 Stat. 344; Pub. L. 111-145, 124 Stat. 56
- 70_5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X5694: User Fees, Small Airports, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70X8244: Gifts and Donations, Department Management, Department of Homeland Security; 116 Stat. 2135
- 70X8533: General Gift Fund, U.S. Coast Guard, Department of Homeland Security; 116 Stat. 2135

- 70X8870: Harbor Maintenance Fee Collection, U.S. Customs Service, Department of Homeland Security; 116 Stat. 2135
- 70_5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X5106: H-1 B Nonimmigrant Petitioner Account, U.S. Citizenship and Immigration Service, Department of Homeland Security; 116 Stat. 2135
- 70X8360: Gifts and Bequests, Federal Law Enforcement Training Center, Department of Homeland Security; 116 Stat. 2135
- 70X5543: International Registered Traveler Program Fund, U.S. Customs and Border Protection, Department of Homeland Security; 121 Stat. 2091-2092
- 70_5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5710: Coast Guard Housing Fund, U.S. Coast Guard, Department of Homeland Security, 14 USC 687(c)
- 70X5569: Asia-Pacific Economic Cooperation Business Travel Cards, U.S. Customs and Border Protection, Department of Homeland Security, 125 Stat. 551
- 70X4363: Enhanced Inspectional Services, U.S. Customs and Border Protection, Department of Homeland Security, 127 Stat. 378
- 70X5702: 9-11 Response and Biometric Exit Account, U.S. Customs and Border Protection, Department of Homeland Security, Pub. L. 114-113, Sec. 402(g)
- 70_5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X5677: Abandoned Seafarers Fund, U.S. Coast Guard, Department of Homeland Security, 128 Stat. 3051
- 70X1910: Citizenship Gift and Bequest Account, U.S. Citizenship and Immigration Services, Department of Homeland Security, 131 Stat. 422

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23. Net Costs by Sub-Organization and Major Missions

The Department's Statement of Net Cost displays DHS costs and revenue and groups the missions and the focus area described in the DHS FY 2014-2018 Strategic Plan into four major missions:

- *Foster a Safe and Secure Homeland*, includes Missions 1, 2, and 4;
- *Enforce and Administer Our Immigration Laws* includes Mission 3;
- *Strengthen National Preparedness and Resilience* includes Mission 5; and
- *Mature and Strengthen Homeland Security* consists of the focus area.

Net cost of operations is the gross (i.e., total) cost incurred by the Department, excluding any gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB, including veterans' compensation, less any exchange (i.e., earned) revenue. Gains and losses from changes in long-term assumptions used to measure federal civilian and military employee pensions, ORB, and OPEB are reported on a separate line item in accordance with SFFAS No. 33.

Intragovernmental costs represent exchange transactions made between two reporting entities within the Federal Government and are presented separately from costs with the public (exchange transactions made between the reporting entity and a non-federal entity). Intragovernmental exchange revenue is disclosed separately from exchange revenue with the public. The criteria used for this classification requires that the intragovernmental expenses relate to the source of goods and services purchased by the reporting entity and not to the classification of related revenue. For example, with "exchange revenue with the public," the buyer of the goods or services is a non-federal entity. With "intragovernmental costs," the buyer and seller are both federal entities. If a federal entity purchases goods or services from another federal entity and sells them to the public, the exchange revenue would be classified as "with the public," but the related costs would be classified as "intragovernmental." The purpose of this classification is to enable the Federal Government to provide consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

To more accurately reflect the actual costs incurred by each of the major missions, the Department is presenting the net costs by Component and major missions, net of eliminations.

The "All Other" column reports net costs for the following Components: DNDO, FLETC, NPPD, OHA, OIG, S&T, USSS, I&A, and OPS.

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2017 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Foster a Safe and Secure Homeland</i>									
Intragovernmental Gross Cost	\$ -	\$ 3,341	\$ 1,101	\$ 596	\$ 1,815	\$ -	\$ -	\$ 1,552	\$ 8,405
Public Gross Cost	-	8,458	6,553	1,340	6,097	-	-	4,342	26,790
Gross Cost	-	11,799	7,654	1,936	7,912	-	-	5,894	35,195
Intragovernmental Revenue	-	(60)	(107)	(8)	-	-	-	(1,125)	(1,300)
Public Revenue Earned	-	(126)	(73)	(105)	(4,046)	-	-	(3)	(4,353)
Less Revenue Earned	-	(186)	(180)	(113)	(4,046)	-	-	(1,128)	(5,653)
Net Cost	-	11,613	7,474	1,823	3,866	-	-	4,766	29,542
<i>Enforce and Administer Our Immigration Laws</i>									
Intragovernmental Gross Cost	\$ -	\$ 693	\$ 142	\$ 987	\$ -	\$ 1,118	\$ 2	\$ 16	\$ 2,958
Public Gross Cost	-	1,560	856	3,821	-	2,219	6	181	8,643
Gross Cost	-	2,253	998	4,808	-	3,337	8	197	11,601
Intragovernmental Revenue	-	(10)	(14)	(45)	-	(12)	-	(5)	(86)
Public Revenue Earned	-	(35)	(9)	(25)	-	(2,953)	-	-	(3,022)
Less Revenue Earned	-	(45)	(23)	(70)	-	(2,965)	-	(5)	(3,108)
Net Cost	-	2,208	975	4,738	-	372	8	192	8,493
<i>Strengthen National Preparedness and Resilience</i>									
Intragovernmental Gross Cost	\$ 1,711	\$ -	\$ 157	\$ 1	\$ -	\$ -	\$ -	\$ 169	\$ 2,038
Public Gross Cost	26,316	-	939	3	-	-	-	182	27,440
Gross Cost	28,027	-	1,096	4	-	-	-	351	29,478
Intragovernmental Revenue	(35)	-	(14)	-	-	-	-	(3)	(52)
Public Revenue Earned	(4,368)	-	(13)	-	-	-	-	(1)	(4,382)
Less Revenue Earned	(4,403)	-	(27)	-	-	-	-	(4)	(4,434)
Net Cost	23,624	-	1,069	4	-	-	-	347	25,044

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Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2017 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Mature and Strengthen Homeland Security</i>									
Intragovernmental Gross Cost	\$ -	\$ -	\$ 228	\$ 46	\$ -	\$ 170	\$ 541	\$ 200	\$ 1,185
Public Gross Cost	-	-	1,294	128	-	327	946	529	3,224
Gross Cost	-	-	1,522	174	-	497	1,487	729	4,409
Intragovernmental Revenue	-	-	(7)	(2)	-	(1)	(2)	(19)	(31)
Public Revenue Earned	-	-	(46)	(4)	-	(509)	-	(1)	(560)
Less Revenue Earned	-	-	(53)	(6)	-	(510)	(2)	(20)	(591)
Net Cost	-	-	1,469	168	-	(13)	1,485	709	3,818
<i>Total Department of Homeland Security</i>									
Intragovernmental Gross Cost	\$ 1,711	\$ 4,034	\$ 1,628	\$ 1,630	\$ 1,815	\$ 1,288	\$ 543	\$ 1,937	\$ 14,586
Public Gross Cost	26,316	10,018	9,642	5,292	6,097	2,546	952	5,234	66,097
Gross Cost	28,027	14,052	11,270	6,922	7,912	3,834	1,495	7,171	80,683
Intragovernmental Revenue	(35)	(70)	(142)	(55)	-	(13)	(2)	(1,152)	(1,469)
Public Revenue Earned	(4,368)	(161)	(141)	(134)	(4,046)	(3,462)	-	(5)	(12,317)
Less Revenue Earned	(4,403)	(231)	(283)	(189)	(4,046)	(3,475)	(2)	(1,157)	(13,786)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB	23,624	13,821	10,987	6,733	3,866	359	1,493	6,014	66,897
Assumption Changes									
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	(226)	-	-	-	-	(268)	(494)
NET COST OF OPERATIONS	\$ 23,624	\$ 13,821	\$ 10,761	\$ 6,733	\$ 3,866	\$ 359	\$ 1,493	\$ 5,746	\$ 66,403

Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 1 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Foster a Safe & Secure Homeland</i>									
Intragovernmental Gross Cost	\$ -	\$ 3,466	\$ 1,165	\$ 648	\$ 1,840	\$ -	\$ -	\$ 1,303	\$ 8,422
Public Gross Cost	-	8,539	6,585	1,377	6,131	-	-	4,007	26,639
Gross Cost	-	12,005	7,750	2,025	7,971	-	-	5,310	35,061
Intragovernmental Revenue	-	(49)	(116)	(32)	-	-	-	(1,067)	(1,264)
Public Revenue Earned	-	(148)	(334)	(115)	(4,044)	-	-	(4)	(4,645)
Less Revenue Earned	-	(197)	(450)	(147)	(4,044)	-	-	(1,071)	(5,909)
Net Cost	-	11,808	7,300	1,878	3,927	-	-	4,239	29,152
<i>Enforce and Administer Our Immigration Laws</i>									
Intragovernmental Gross Cost	\$ -	\$ 596	\$ 172	\$ 903	\$ -	\$ 1,133	\$ 1	\$ 13	\$ 2,818
Public Gross Cost	-	1,254	979	3,691	-	2,239	4	148	8,315
Gross Cost	-	1,850	1,151	4,594	-	3,372	5	161	11,133
Intragovernmental Revenue	-	(9)	(17)	(15)	-	(10)	-	(5)	(56)
Public Revenue Earned	-	(28)	(49)	(34)	-	(3,756)	-	-	(3,867)
Less Revenue Earned	-	(37)	(66)	(49)	-	(3,766)	-	(5)	(3,923)
Net Cost	-	1,813	1,085	4,545	-	(394)	5	156	7,210
<i>Strengthen National Preparedness and Resilience</i>									
Intragovernmental Gross Cost	\$ 1,201	\$ -	\$ 163	\$ 1	\$ -	\$ -	\$ -	\$ 149	\$ 1,514
Public Gross Cost	16,677	-	931	3	-	-	-	179	17,790
Gross Cost	17,878	-	1,094	4	-	-	-	328	19,304
Intragovernmental Revenue	(47)	-	(15)	-	-	-	-	(3)	(65)
Public Revenue Earned	(4,443)	-	(44)	-	-	-	-	(1)	(4,488)
Less Revenue Earned	(4,490)	-	(59)	-	-	-	-	(4)	(4,553)
Net Cost	13,388	-	1,035	4	-	-	-	324	14,751

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Net Costs by Sub-Organization and Major Missions
For the Year Ended September 30, 2016 (in millions) (page 2 of 2)

Major Missions	FEMA	CBP	USCG	ICE	TSA	USCIS	MGMT	All Other	Total
<i>Mature and Strengthen Homeland Security</i>									
Intragovernmental Gross Cost	\$ -	\$ -	\$ 232	\$ 8	\$ -	\$ 10	\$ 542	\$ 207	\$ 999
Public Gross Cost	-	-	1,338	31	-	19	1,062	457	2,907
Gross Cost	-	-	1,570	39	-	29	1,604	664	3,906
Intragovernmental Revenue	-	-	(5)	-	-	-	(2)	(22)	(29)
Public Revenue Earned	-	-	(46)	-	-	(38)	-	(1)	(85)
Less Revenue Earned	-	-	(51)	-	-	(38)	(2)	(23)	(114)
Net Cost	-	-	1,519	39	-	(9)	1,602	641	3,792
<i>Total Department of Homeland Security</i>									
Intragovernmental Gross Cost	\$ 1,201	\$ 4,062	\$ 1,732	\$ 1,560	\$ 1,840	\$ 1,143	\$ 543	\$ 1,672	\$ 13,753
Public Gross Cost	16,677	9,793	9,833	5,102	6,131	2,258	1,066	4,791	55,651
Gross Cost	17,878	13,855	11,565	6,662	7,971	3,401	1,609	6,463	69,404
Intragovernmental Revenue	(47)	(58)	(153)	(47)	-	(10)	(2)	(1,097)	(1,414)
Public Revenue Earned	(4,443)	(176)	(473)	(149)	(4,044)	(3,794)	-	(6)	(13,085)
Less Revenue Earned	(4,490)	(234)	(626)	(196)	(4,044)	(3,804)	(2)	(1,103)	(14,499)
Net Cost Before (Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	13,388	13,621	10,939	6,466	3,927	(403)	1,607	5,360	54,905
(Gain)/Loss on Pension, ORB, or OPEB Assumption	-	-	191	-	-	-	-	43	234
NET COST OF OPERATIONS	\$ 13,388	\$ 13,621	\$ 11,130	\$ 6,466	\$ 3,927	\$ (403)	\$ 1,607	\$ 5,403	\$ 55,139

24. Apportionment Categories of New Obligations and Upward Adjustments: Direct versus Reimbursable Obligations

Apportionment categories are determined in accordance with the guidance provided in OMB Circular A-11, *Preparation, Submission and Execution of the Budget*. Category A represents resources apportioned for calendar quarters. Category B represents resources apportioned for other time periods; for activities, projects, or objectives; or for any combination thereof (in millions).

Year Ended September 30, 2017:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments – Direct	\$ 46,627	\$ 28,275	\$ 1,926	\$ 76,828
New Obligations and Upward Adjustments – Reimbursable	2,386	2,673	-	5,059
Total New Obligations and Upward Adjustments	\$ 49,013	\$ 30,948	\$ 1,926	\$ 81,887

Year Ended September 30, 2016:	Apportionment Category A	Apportionment Category B	Exempt from Apportionment	Total
New Obligations and Upward Adjustments – Direct	\$ 42,387	\$ 25,070	\$ 1,932	\$ 69,389
New Obligations and Upward Adjustments – Reimbursable	2,811	2,435	-	5,246
Total New Obligations and Upward Adjustments	\$ 45,198	\$ 27,505	\$ 1,932	\$ 74,635

25. Available Borrowing Authority

For the Years Ended September 30:	2017	2016
Beginning Borrowing Authority	\$ 5	\$ 7
Current Year Borrowing Authority Realized	7,454	7,469
Decrease in Current Year Borrowing Authority Realized	(27)	(7,468)
Net Current Year Borrowing Authority Realized	7,427	1
Less: Borrowing Authority Converted to Cash	(7,427)	(1)
Less: Borrowing Authority Withdrawn	(1)	(2)
Ending Borrowing Authority	\$ 4	\$ 5

FEMA has borrowing authority to pay insurance claims as part of the NFIP and to finance CDLPs under DADLP. Borrowing authority is budget authority enacted by law to permit an agency to borrow money and then obligate and disburse against amounts borrowed for a specified

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purpose. As of September 30, 2017, and 2016, net current year borrowing authority realized presented in the SBR totaled \$7,427 million and \$1 million, respectively.

FEMA is authorized to borrow from Treasury up to \$30,425 million to fund the payment of flood insurance claims and claims-related expenses of the NFIP. Amounts borrowed at any time are not predetermined, and authority is used only as needed to pay existing obligations for claims and expenses. Insurance premiums collected are used to pay insurance claims and to repay borrowings. As of September 30, 2017, and 2016, FEMA had drawn from Treasury \$30,425 million and \$23,000 million, respectively, leaving \$0 and \$7,425 million, respectively, available to be borrowed. As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted a supplemental appropriation for disaster relief on October 26, 2017. The Act directs Treasury to cancel \$16,000 million of the \$30,425 million debt of NFIP to Treasury; increasing FEMA's borrowing authority to cover flood insurance claims. For additional information, see Note 31, Subsequent Events.

FEMA also requests borrowing authority annually to cover the principal amount of direct loans during the fiscal year, not to exceed \$400 million less the subsidy due from the DADLP account. The ending available borrowing authority of \$4 million is to cover current obligations for CDs still disbursing.

26. Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances whose period of availability has expired are not available to fund new obligations. Expired unobligated balances are available to pay for current period adjustments to obligations incurred prior to expiration. For a fixed appropriation account, the balance can be carried forward for five fiscal years after the period of availability ends. At the end of the fifth fiscal year, the account is closed and any remaining balance is canceled and returned to Treasury. For a no-year account, the unobligated balance is carried forward indefinitely until specifically rescinded by law or the head of the agency concerned or the President determines that the purposes for which the appropriation was made have been carried out and disbursements have not been made against the appropriation for two consecutive years.

Included in the cumulative results of operations and Fund Balance with Treasury are special funds of \$1,450 million and \$1,095 million at September 30, 2017, and 2016, respectively, that represents the Department's authority to assess and collect user fees relating to merchandise and passenger processing; to assess and collect fees associated with services performed at certain small airports or other facilities; to retain amounts needed to offset costs associated with collecting duties; and taxes and fees for the Government of Puerto Rico. These special fund balances are restricted by law in their use to offset specific costs incurred by the Department. Part of the passenger fees in the COBRA User Fees Account is restricted by law in its use to offset specific costs incurred by the Department.

The entity trust fund balances result from the Department's authority to use the proceeds from general order items sold at auction to offset specific costs incurred by the Department relating to their sale, to use available funds in the Salaries and Expense Trust Fund to offset specific costs for expanding border and port enforcement activities, and to use available funds from the

Harbor Maintenance Fee Trust Fund to offset administrative expenses related to the collection of the Harbor Maintenance Fee.

27. Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

The table below documents the material differences between the FY 2016 Statement of Budgetary Resources and the actual amounts reported for FY 2016 in the Budget of the Federal Government. Since the FY 2017 financial statements will be reported prior to the release of the Budget of the Federal Government, DHS is reporting for FY 2016 only. Typically, the Budget of the Federal Government with the FY 2017 actual data is published in February of the subsequent year. Once published, the FY 2017 actual data will be available on the OMB website.

	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FY 2016 Actual Balances per the FY 2018 Budget of the U.S. Government (in millions)	\$ 83,817	\$ 72,849	\$ 10,911	\$ 56,112
Reconciling Items:				
Accounts that are expired that are not included in Budget of the United States	1,805	-	-	-
Distributed Offsetting Receipts not included in the Budget of the United States, Net Outlays	-	-	-	(10,911)
Refunds and drawbacks not included in the Budget of the United States	1,670	1,670	-	1,630
Byrd Program (Continued Dumping and Subsidy Offset) not included in the Budget of the United States	257	116	-	116
Miscellaneous Differences	564	-	-	(2)
Per the 2016 Statement of Budgetary Resources	\$ 88,113	\$ 74,635	\$ 10,911	\$ 46,945

The Miscellaneous Differences amount includes adjustments to obligations reported on the Statement of Budgetary Resources but not included in the President's Budget.

28. Undelivered Orders, Unpaid, End of Period

An unpaid undelivered order exists when a valid obligation has occurred and funds have been reserved but the goods or services have not been received by the Department. Undelivered orders for the periods ended September 30, 2017 and 2016, were \$45,436 million and \$41,756 million, respectively.

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29. Custodial Revenue

The Department collects revenue from a variety of duties, excise taxes, and various other fees. Revenue collections primarily result from current fiscal year activity. Current Taxes, Duties, Trade Receivables, Net are collected within 90 days of the assessment. Non-entity revenue reported on the Department's Statement of Custodial Activity includes duties, excise taxes, and various non-exchange fees collected by CBP. CBP assesses duties, taxes, and fees on goods and merchandise brought into the United States from foreign countries. For additional information, see Note 1.X., Exchange and Non-exchange Revenue.

The significant types of non-entity accounts receivable and custodial revenue as presented in the Statement of Custodial Activity are described below.

1. **Duties:** amounts collected on imported goods collected on behalf of the Federal Government.
2. **User fees:** amounts designed to maintain U.S. harbors and to defray the cost of other miscellaneous service programs.
3. **Excise taxes:** amounts collected on imported distilled spirits, wines, tobacco products, and other miscellaneous taxes collected on the behalf of the Federal Government.
4. **Fines and penalties:** amounts collected for violations of laws and regulations.

Refunds are amounts due to the importer/exporter as a result of overpayments of duties, taxes, fees, and interest. Refunds include drawback remittance paid when imported merchandise, for which duty was previously paid, is exported from the United States.

Tax disbursements from the refunds and drawbacks account, broken out by revenue type and by tax year, were as follows for the fiscal years ended September 30, 2017 and 2016 (in millions):

2017 Tax Disbursements	Tax Year			
	2017	2016	2015	Prior Years
Total tax refunds and drawbacks disbursed	\$ 1,155	\$ 298	\$ 126	\$ 244

2016 Tax Disbursements	Tax Year			
	2016	2015	2014	Prior Years
Total tax refunds and drawbacks disbursed	\$ 1,020	\$ 343	\$ 149	\$ 355

Total tax refunds and drawbacks disbursed consist of non-exchange customs duties revenue refunded. The disbursements include interest payments of \$35 million and \$31 million for the fiscal years ended September 30, 2017 and 2016, respectively.

The disbursement totals for refunds include antidumping and countervailing duties collected that are refunded pursuant to rulings by the Department of Commerce. These duties are refunded when the Department of Commerce issues a decision in favor of the foreign industry. See Note 18, Other Liabilities, for more information.

30. Reconciliation of Net Cost of Operations (Proprietary) to Budget

The Reconciliation of Net Cost of Operations to Budget reconciles the Department's Resources Used to Finance Activities (first section), which consists of the budgetary basis of accounting Net Obligations plus the proprietary basis of accounting Other Resources, to the proprietary basis of accounting Net Cost of Operations.

The second section, Resources Used to Finance Items Not Part of the Net Cost of Operations, includes items such as undelivered orders, unfilled customer orders, and capitalized assets. These transactions are reversed out because they affect budgetary obligations, but not the proprietary net cost of operations.

The third section, Components of Net Cost of Operations that Will Not Require or Generate Resources in the current period, includes items such as increases in environmental liability and depreciation. These transactions are added because they affect proprietary net cost of operations, but not the budgetary obligations. The third section's subsection, Components Requiring or Generating Resources in future periods, includes costs reported in the current period that are included in the Liabilities Not Covered by Budgetary Resources reported in Note 14.

The reconciliations of net cost of operations to budget for FY 2017 and FY 2016 are as follows:

	2017	2016
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
New Obligations and Upward Adjustments (Note 24)	\$ 81,887	\$ 74,635
Less: Spending Authority from Offsetting Collections and Recoveries	(13,509)	(14,041)
Obligations Net of Offsetting Collections and Recoveries	68,378	60,594
Less: Offsetting Receipts	(11,611)	(10,911)
Net Obligations	<u>56,767</u>	<u>49,683</u>
Other Resources		
Donations and Forfeiture of Property	20	1
Transfers In (Out) without Reimbursement	66	(1)
Imputed Financing from Costs Absorbed by Others	1,194	1,333
Other	1,956	1,807
Net Other Resources Used to Finance Activities	<u>3,236</u>	<u>3,140</u>
Total Resources Used to Finance Activities	<u>\$ 60,003</u>	<u>\$ 52,823</u>

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	2017	2016
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but Not Yet Provided	\$ 4,463	\$ 2,234
Resources that Fund Expenses Recognized in Prior Periods	312	426
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations:		
Credit Program Collections that Increase Liabilities for Loan Guarantees or Allowances for Subsidies	(4)	(4)
Other	(3,479)	(2,813)
Resources that Finance the Acquisition of Assets	2,350	2,241
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	1,826	2,035
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	5,468	4,119
TOTAL RESOURCES USED TO FINANCE THE NET COST OF OPERATIONS	\$ 54,535	\$ 48,704
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	\$ 40	\$ 56
Increase in Exchange Revenue Receivable from the Public	82	(55)
Increase in Insurance Liability	9,135	2,453
Increase in Actuarial Pension Liability	-	1,894
Increase in Actuarial Health Insurance Liability	852	-
Increase in Other	231	203
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	10,340	4,551
Components not Requiring or Generating Resources		
Depreciation and Amortization	1,896	2,147
Revaluation of Assets or Liabilities	66	209
Other	(434)	(472)
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	1,528	1,884
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	11,868	6,435
NET COST OF OPERATIONS	\$ 66,403	\$ 55,139

31. Subsequent Events

As a result of Hurricanes Harvey, Irma, and Maria, Congress enacted the Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017 (Pub. L. 115-72) on October 26, 2017. The Act provides FEMA's Disaster Relief Fund with an additional \$13,760 million for response and recovery activity, and FEMA's DADLP \$4,900 million for direct loans to assist local governments in providing essential services. The act also provides debt relief and additional borrowing authority for the NFIP by cancelling \$16,000 million of the NFIP's debt to Treasury.

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Required Supplementary Stewardship Information*Unaudited, see accompanying Independent Auditors' Report***Stewardship Investments**

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation. When incurred, stewardship investments are treated as expenses in calculating net cost, but they are separately reported as Required Supplementary Stewardship Information to highlight the extent of investments that are made for long-term benefit. The Department's expenditures (including carryover funds expended in FY 2017) in human capital, research and development, and non-federal physical property are shown below.

A. Investments in Research and Development

Investments in research and development represent expenses incurred to support the search for new or refined knowledge and ideas. The intent of the investment is to apply or use such knowledge to improve and develop new products and processes with the expectation of maintaining or increasing national productive capacity or yielding other future benefits. S&T, DNDO¹ and USCG have made significant investments in research and development this fiscal year (in millions):

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
S&T	\$ 962	\$ 878	\$ 785	\$ 654	\$ 485
DNDO ¹	63	29	76	74	66
USCG	22	21	25	25	21
TSA	-	-	-	1	1
Total Research & Development	\$ 1,047	\$ 928	\$ 886	\$ 754	\$ 573

S&T conducts research in many areas to support the Department's missions to defend against chemical and biological threats, protect infrastructure and transportation systems from explosives, determine the motivations and intents behind terrorist attacks, prepare the Nation to respond to large and small scale events, and protect the critical systems that run our financial and electrical power systems to name a few. Projects in development include:

- *Apex Programs; Screening at Speed.* Continuously evolving threats at checkpoints, necessitates a program that provides technological innovation while allowing for changing operational needs. The solutions will improve passenger experience and enhance threat detection capabilities at low cost.
- *Cyber Security/Information Analytics; Internet Measurement and Attack Modeling.* As the Internet continues to grow organically and exponentially, the protection of cyber infrastructure depends on the ability to identify critical Internet resources that are subject to attack. S&T plans to develop new tools and techniques for mapping several layers of the Internet to detect and mitigate malicious behavior.
- *Border Security; People Screening.* S&T continues efforts to introduce process and technology improvements to CBP traveler inspection operations in order to strengthen

¹ Historical amounts were updated to reflect corrections made since the last report.

traveler vetting and facilitate lawful and legitimate travel in support of the President's National Travel and Tourism Strategy.

DNDO is responsible for conducting an aggressive, evolutionary, and transformational research and development program to generate and improve technologies to detect nuclear and other radioactive materials. DNDO's research efforts seek to achieve dramatic advancements in technologies to enhance our national detection and forensics capabilities and include:

- Funded 45 research efforts at 29 universities to address long-term, high-risk challenges in Radiation/Nuclear Detection and Forensics by completing investigation of new materials and approaches.
- Discovered and documented root cause of plastic degradation in portal plastics due to long term exposure to environmental conditions such as varying temperature and moisture, and found alternate non-degrading formulation solutions for plastics; Completed baseline study of personal and mobile detection assets used for current monitoring mission, and, provided assessments to critical areas for performance improvement; Enhanced interagency coordination through leadership of National Technical Nuclear Forensics Steering Committee and led the development of the joint interagency annual Review of National Strategic Five-Year Plan.
- Continued to improve: Detection capabilities by using Aerial Detection; Radiological and Nuclear identification algorithm; and, Long-Range Radiation Detection.

The USCG research and development program allows the USCG to sustain critical mission capabilities through basic and applied research, development, test and evaluation of ideas, applications, products and processes. It also contributes to the Coast Guard forming partnerships with DHS, DOD, as well as other Federal and private research organizations. The purpose of the R&D Program is to help identify and examine existing or impending problems in the Coast Guard's operational, regulatory, and support programs and make improvements through solutions based on scientific and technological advances. Significant accomplishments in research and development included:

- Developing innovative interdiction patrol tactics using a game-theoretical approach to Maritime Interdiction Operations in South Florida which showed how alternative deployment strategies could be used with various CG platform mixes. The simulation based analysis showed possible improvements in mission effectiveness against migrant transit attempts and provided deployment strategies for consideration.
- Analysis of the test data from the recently conducted airborne oil spill remote sensing and reporting field evaluations with fixed wing aircraft, informing tactics, techniques, and procedures and identified potential improvements for inclusion in future upgrades to the sensors and/or mission systems specific to the maritime oil spill response mission.
- Analysis for a summary of the Oil in Ice research demonstrations and tests supporting development of a guide for the federal on-scene coordinator that can be used to determine best response options to address detection and surveillance, containment and recovery, and in-situ burning in broken ice and ice-edge conditions.
- Continued research in the potential Coast Guard use of diesel outboard engines in various response boats including a larger research initiative to assess the operational feasibility of outboard diesel engines in the Coast Guard fleet.
- Conducted six experimental burns to test technology that could make it possible to burn-off spilled oil quickly while producing relatively low levels of air pollutants in

Financial Information

partnership with Bureau of Safety and Environmental Enforcement, Naval Research Laboratory, and Worcester Polytechnic Institute.

- Completed an evaluation of the available technologies for possible improvements to navigation, communications, and detection capabilities for ice rescue teams in harsh cold weather environments.

B. Investments in Human Capital

Investments in human capital include expenses incurred for programs to educate and train first responders. These programs are intended to increase or maintain national productive capacity as evidenced by outputs and outcomes. FEMA and S&T have made significant investments in human capital (in millions):

	FY 2017	FY 2016	FY 2015	FY 2014	FY 2013
FEMA	\$ 104	\$ 101	\$ 101	\$ 101	\$ 97
S&T	3	4	3	7	9
Total Human Capital	\$ 107	\$ 105	\$ 104	\$ 108	\$ 106

FEMA's educational, training, and professional development included:

- *National Fire Academy (NFA)*. Promotes the professional development of the fire and emergency response community and its allied professionals and delivers educational and training courses with a national focus to supplement and support state and local fire service training programs. In FY 2017, NFA provided training to 95,015 state and local emergency responders.
- *Emergency Management Institute (EMI)*. Develops and delivers emergency management training to enhance the capabilities of federal, state, local, and tribal government officials, volunteer organizations, and the public and private sectors to minimize the impact of disasters on the American public. Training emphasizes the National Response Framework, National Incident Management System, and the National Preparedness Guidelines. In FY 2017, EMI provided training to 1,041,661 state and local emergency responders.
- *Center for Domestic Preparedness (CDP)*. Specializes in providing advanced hands-on, all-hazards training for emergency responders at the state, local, tribal, and territorial level to prevent, deter, respond to, and recover from terrorist acts, especially those involving weapons of mass destruction or hazardous materials. In FY 2017, CDP provided training to 51,509 state, local, tribal, and territorial emergency responders.

S&T issues grants to Minority Serving Institutions, scientific leadership awards, and institutional awards to support the development of Homeland Security Science, Technology, Engineering and Mathematics (HS-STEM) teaching initiatives, and curriculum development. Minority Serving Institutions students will enter HS-STEM related careers or obtain admission to graduate school to continue HS-STEM related research, increasing diversity and representation within the future homeland security science and engineering workforce.

C. Investments in Non-Federal Physical Property

Investments in non-federal physical property are expenses included in the calculation of net cost incurred by the reporting entity for the purchase, construction, or major renovation of physical property owned by state and local governments. TSA, FEMA and DNDO have made significant investments in non-federal physical property (in millions):

	<i>FY 2017</i>	<i>FY 2016</i>	<i>FY 2015</i>	<i>FY 2014</i>	<i>FY 2013</i>
TSA	\$ 227	\$ 271	\$ 311	\$ 215	\$ 421
FEMA ²	13	54	52	42	86
DNDO	-	-	-	6	4
Total Non-Federal Physical Property	\$ 240	\$ 325	\$ 363	\$ 263	\$ 511

TSA purchases and installs in-line Explosive Detention Systems (EDS) equipment through a variety of funding mechanisms, including congressionally authorized Letters of Intent (LOI), as part of the airport improvement program. LOIs are used to reimburse airports for the Federal Government's share of allowable costs for the modifications. TSA maintains five LOIs to provide for the facility modifications necessary to accommodate in-line EDS screening solutions. In addition, under the airport renovation program, TSA employs other transaction agreements (OTAs) to fund the installation of integrated and non-integrated EDS and explosive trace detection equipment as well as improvements to be made to the existing systems in the baggage handling area. These OTAs establish the respective cost-sharing obligations and other responsibilities of TSA and the specific entity (board, port, or authority) conducting the installations or improvements.

FEMA provides grants to state and local governments to meet the firefighting and emergency response needs (equipment, protective gear, training and other resources) of fire departments and nonaffiliated emergency medical service organizations as part of the assistance to firefighters grant program.

DNDO transferred two radiation portal monitors to the State of California and one radiation portal monitor to the State of Mississippi as a result of the conclusion of the Advanced Spectroscopic Portal C radiation detection equipment programs in 2013 and 2014.

² Historical amounts were updated to reflect corrections made since the last report.

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Required Supplementary Information*Unaudited, see accompanying Independent Auditors' Report***1. Deferred Maintenance and Repairs**

The Department presents deferred maintenance and repairs as of the end of the fiscal year in accordance with SFFAS No. 42, *Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32*. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Deferred maintenance and repairs are activities that were not performed when they should have been, or that were scheduled to be performed but were delayed for a future period.

Deferred maintenance and repair amounts represent the cost to restore an asset's condition so that the asset provides acceptable services and achieves its expected life. Mission performance metrics reports, scorecards, and historical records are used as objective evidence of deficiencies in deferred maintenance and repairs. Project management reviews of the inputs are conducted to identify maintainability and reliability, labor costs, design costs, technical expertise required, organizational reparability, organizational spares availability, and opportunities to use spare parts from property that may be retired.

Defining and Implementing Maintenance and Repairs Policies. The Department measures deferred maintenance and repairs for each class of asset using condition assessments performed at least once every five years. These assessments include surveys, inspections, operating evaluations, regional strategic assessments, facility quality ratings, and consolidated support function plans. Deferred maintenance and repair procedures are performed for capital and non-capital accountable personal and real property, capitalized stewardship PP&E including multi-use heritage assets—such as buildings and structures, memorials, and recreational areas—as well as inactive and excess property that is not required to fulfill the Component missions, or have been withdrawn from operational service. Most of these assets have been fully depreciated. The condition of the assets included in these assessments ranges from good to poor. Components identify maintenance not performed as scheduled and establish future performance dates.

The Department allows Components the flexibility to apply industry standard methods commensurate with each asset's condition and usage, unless more thorough procedures are mandated by federal, state, or local codes. Components estimate the cost to address deferred maintenance and repair deficiencies using construction, maintenance, and repair cost data available through the Components' real property structure.

Ranking and Prioritizing Maintenance and Repair Activities. The Department ranks and prioritizes deferred maintenance and repair activities based on mission criticality to the operations of the Department and legal requirements, as well as the condition of the asset. Deferred maintenance and repair projects are prioritized among other activities as part of the Department's five-year strategic plan and annual capital budgeting processes.

Factors Considered in Setting Acceptable Condition. Acceptable condition is primarily prescribed by the facility condition assessments or other similar methodology. The condition assessment process includes factors such as asset age, operating environment, inventory levels, threat vulnerability, and current condition as determined by physical inspection, operating environment, and maintenance and repair history of the asset under assessment. The Department also considers federal requirements (including OMB's Federal Real Property Profile), accessibility, mission criticality, and needs.

Heritage Assets Excluded under Deferred Maintenance and Repairs. The Department possesses certain types of heritage assets that are not reported in deferred maintenance and repairs. These heritage assets include artifacts, artwork, display models, and sunken vessels and aircraft that have deteriorated through damage due to moving and transportation, storage or display, or environmental degradation.

Significant Changes from Prior Year. As of September 30, 2017, \$1,297 million in deferred maintenance and repairs for active assets was estimated to return active real property assets to acceptable operating condition. This is an overall increase of \$128 million.

Deferred maintenance and repairs for FY 2017, by asset class, consisted of (in millions):

	Ending	Beginning
Active:		
Buildings, Structures, and Facilities	\$ 1,153	\$ 1,042
Furniture, Fixtures, and Equipment	93	75
Other General PP&E	14	15
Heritage assets ³	32	34
Total Active	\$ 1,292	\$ 1,166
Inactive and Excess:		
Buildings, Structures, and Facilities	\$ 3	\$ 1
Heritage assets	2	2
Total Inactive and Excess	\$ 5	\$ 3
Total Deferred Maintenance	\$ 1,297	\$ 1,169

2. Combining Statement of Budgetary Resources

The principal Statement of Budgetary Resources combines the availability, status, and outlays of the Department's budgetary resources during FY 2017. The following table provides the Statement of Budgetary Resources disaggregated by DHS Components rather than by major budget account because the Department manages its budget at the Component level.

³ Some multi-use heritage assets were damaged as a result of Hurricanes Irma and Maria. The Department is currently assessing the costs of repairs. Any necessary costs of repairs will be recognized in a future period.

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Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2017 (in millions) (page 1 of 2)

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
BUDGETARY RESOURCES													
Unobligated Balance Brought Forward, October 1	\$ 1,543	\$ 2,173	\$ 1,151	\$ 4,823	\$ 142	\$ 724	\$ 29	\$ 732	\$ 753	\$ 161	\$ 284	\$ 963	\$ 13,478
Recoveries of Prior Year Unpaid Obligations	311	240	136	1,052	7	118	4	188	141	32	66	153	2,448
Other Changes in Unobligated Balance	(31)	(93)	(7)	(173)	(2)	(11)	(7)	(31)	(69)	(39)	(16)	(106)	(585)
Unobligated Balance from Prior Year Budget Authority, Net	1,823	2,320	1,280	5,702	147	831	26	889	825	154	334	1,010	15,341
Appropriations	16,060	10,546	3,983	18,922	242	6,745	123	1,598	1,819	2,303	775	5,108	68,224
Borrowing Authority	-	-	-	7,427	-	-	-	-	-	-	-	-	7,427
Spending Authority from Offsetting Collections	2,197	467	48	3,296	104	143	44	630	1,357	16	38	2,631	10,971
TOTAL BUDGETARY RESOURCES	\$ 20,080	\$ 13,333	\$ 5,311	\$ 35,347	\$ 493	\$ 7,719	\$ 193	\$ 3,117	\$ 4,001	\$ 2,473	\$ 1,147	\$ 8,749	\$ 101,963
STATUS OF BUDGETARY RESOURCES													
New Obligations and Upward Adjustments	\$ 18,225	\$ 11,449	\$ 3,912	\$ 24,352	\$ 363	\$ 7,165	\$ 166	\$ 2,314	\$ 3,164	\$ 2,278	\$ 816	\$ 7,683	\$ 81,887
Unobligated Balance, End Of Year													
Apportioned, Unexpired	1,266	1,544	258	10,596	110	386	4	637	609	119	282	785	16,596
Exempt from Apportionment, Unexpired	-	2	-	-	-	-	-	-	-	-	-	-	2
Unapportioned, Unexpired	422	-	1,126	214	2	1	-	17	4	34	10	27	1,857
Unexpired Unobligated Balance, End of Year	1,688	1,546	1,384	10,810	112	387	4	654	613	153	292	812	18,455
Expired Unobligated Balance, End of Year	167	338	15	185	18	167	23	149	224	42	39	254	1,621
Total Unobligated Balance, End of Year	1,855	1,884	1,399	10,995	130	554	27	803	837	195	331	1,066	20,076
TOTAL BUDGETARY RESOURCES	\$ 20,080	\$ 13,333	\$ 5,311	\$ 35,347	\$ 493	\$ 7,719	\$ 193	\$ 3,117	\$ 4,001	\$ 2,473	\$ 1,147	\$ 8,749	\$ 101,963

**Combining Statement of Budgetary Resources by Sub-Organization Accounts
For the Year Ended September 30, 2017 (in millions) (page 2 of 2)**

	CBP	USCG	USCIS	FEMA	FLETC	ICE	OHA	DeptOps	NPPD	USSS	S&T	TSA	TOTAL
CHANGE IN OBLIGATED BALANCE													
Unpaid Obligations:													
Unpaid Obligations, Brought Forward, October 1	\$ 3,900	\$ 4,609	\$ 1,208	\$ 24,923	\$ 886	\$ 1,439	\$ 128	\$ 1,907	\$ 1,759	\$ 563	\$ 1,671	\$ 3,335	\$ 46,328
New Obligations and Upward Adjustments	18,225	11,449	3,912	24,352	363	7,165	166	2,314	3,164	2,278	816	7,683	81,887
Outlays, Gross	(17,263)	(10,961)	(3,816)	(18,929)	(588)	(6,946)	(169)	(2,496)	(3,076)	(2,190)	(1,014)	(7,737)	(75,185)
Actual Transfers, Unpaid Obligations, Net	-	-	-	(10)	-	-	-	-	-	-	-	-	(10)
Recoveries of Prior Year Unpaid Obligations	(311)	(240)	(136)	(1,052)	(7)	(118)	(4)	(188)	(141)	(32)	(66)	(153)	(2,448)
Unpaid Obligations, End of Year	4,551	4,857	1,168	29,284	654	1,540	121	1,537	1,706	619	1,407	3,128	50,572
Uncollected Payments:													
Uncollected Customer Payments From Federal Sources, Brought Forward, October 1	(176)	(137)	(20)	(98)	(933)	(102)	(15)	(717)	(199)	(22)	(111)	(12)	(2,542)
Change in Uncollected Customer Payments from Federal Sources	(20)	(47)	(4)	(6)	233	16	(3)	173	(10)	-	1	(34)	299
Uncollected Customer Payments from Federal Sources, End of Year	(196)	(184)	(24)	(104)	(700)	(86)	(18)	(544)	(209)	(22)	(110)	(46)	(2,243)
Obligated Balance, Start of Year, Net	\$ 3,724	\$ 4,472	\$ 1,188	\$ 24,825	\$ (47)	\$ 1,337	\$ 113	\$ 1,190	\$ 1,560	\$ 541	\$ 1,560	\$ 3,323	\$ 43,786
Obligated Balance, End of Year, Net	\$ 4,355	\$ 4,673	\$ 1,144	\$ 29,180	\$ (46)	\$ 1,454	\$ 103	\$ 993	\$ 1,497	\$ 597	\$ 1,297	\$ 3,082	\$ 48,329
BUDGET AUTHORITY AND OUTLAYS, NET													
Budget Authority , Gross	\$ 18,257	\$ 11,013	\$ 4,031	\$ 29,645	\$ 346	\$ 6,888	\$ 167	\$ 2,228	\$ 3,176	\$ 2,319	\$ 813	\$ 7,739	\$ 86,622
Actual Offsetting Collections	(2,178)	(435)	(52)	(3,311)	(337)	(180)	(41)	(814)	(1,350)	(17)	(38)	(2,607)	(11,360)
Change in Uncollected Customer Payments from Federal Sources	(20)	(47)	(4)	(6)	233	16	(3)	173	(10)	-	1	(34)	299
Recoveries of Prior Year Paid Obligations													
Anticipated Offsetting Collections	1	15	5	13	-	22	-	11	2	1	-	9	79
Budget Authority, Net	\$ 16,060	\$ 10,546	\$ 3,980	\$ 26,341	\$ 242	\$ 6,746	\$ 123	\$ 1,598	\$ 1,818	\$ 2,303	\$ 776	\$ 5,107	\$ 75,640
Outlays	\$ 17,263	\$ 10,961	\$ 3,816	\$ 18,929	\$ 588	\$ 6,946	\$ 169	\$ 2,496	\$ 3,076	\$ 2,190	\$ 1,014	\$ 7,737	\$ 75,185
Actual Offsetting Collections	(2,178)	(435)	(52)	(3,311)	(337)	(180)	(41)	(814)	(1,350)	(17)	(38)	(2,607)	(11,360)
Outlays, Net	15,085	10,526	3,764	15,618	251	6,766	128	1,682	1,726	2,173	976	5,130	63,825
Distributed Offsetting Receipts	(4,422)	(61)	(4,351)	(1,017)	-	(187)	-	(34)	1	-	-	(1,540)	(11,611)
Agency Outlays, Net	\$ 10,663	\$ 10,465	\$ (587)	\$ 14,601	\$ 251	\$ 6,579	\$ 128	\$ 1,648	\$ 1,727	\$ 2,173	\$ 976	\$ 3,590	\$ 52,214

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3. *Statement of Custodial Activity*

Substantially all duty, tax, and fee revenue collected by CBP are remitted to various general fund accounts maintained by Treasury and the U.S. Department of Agriculture. Treasury further distributes this revenue to other federal agencies in accordance with various laws and regulations. CBP transfers the remaining revenue (generally less than one percent of revenue collected) directly to either other federal or non-federal agencies. Refunds of revenue collected from import/export activities are recorded in separate accounts established for this purpose and are funded through permanent indefinite appropriations. These activities reflect the non-entity, or custodial, responsibilities that CBP, as an agency of the Federal Government, has been authorized by law to enforce.

CBP reviews selected documents to ensure all duties, taxes, and fees owed to the Federal Government are paid and to ensure all regulations are followed. If CBP determines duties, taxes, fees, fines, or penalties are due in addition to estimated amounts previously paid by the importer/violator, the importer/violator is notified of the additional amount due. CBP regulations allow the importer/violator to file a protest on the additional amount due for review by the Port Director. A protest allows the importer/violator the opportunity to submit additional documentation supporting the claim of a lower amount due or to cancel the additional amount due in its entirety. During this protest period, CBP does not have a legal right to the importer/violator's assets, and consequently CBP recognizes accounts receivable only when the protest period has expired or an agreement is reached.

For FY 2017 and FY 2016, CBP had the legal right to collect \$2,980 million and \$3,042 million of receivables, respectively. In addition, there were \$1,830 million and \$3,297 million representing records still in the protest phase for FY 2017 and FY 2016, respectively. CBP recognized as write-offs \$14 million and \$38 million, respectively, of assessments that the Department had statutory authority to collect at September 30, 2017 and 2016, but have no future collection potential. Most of this amount represents duties, taxes, and fees.

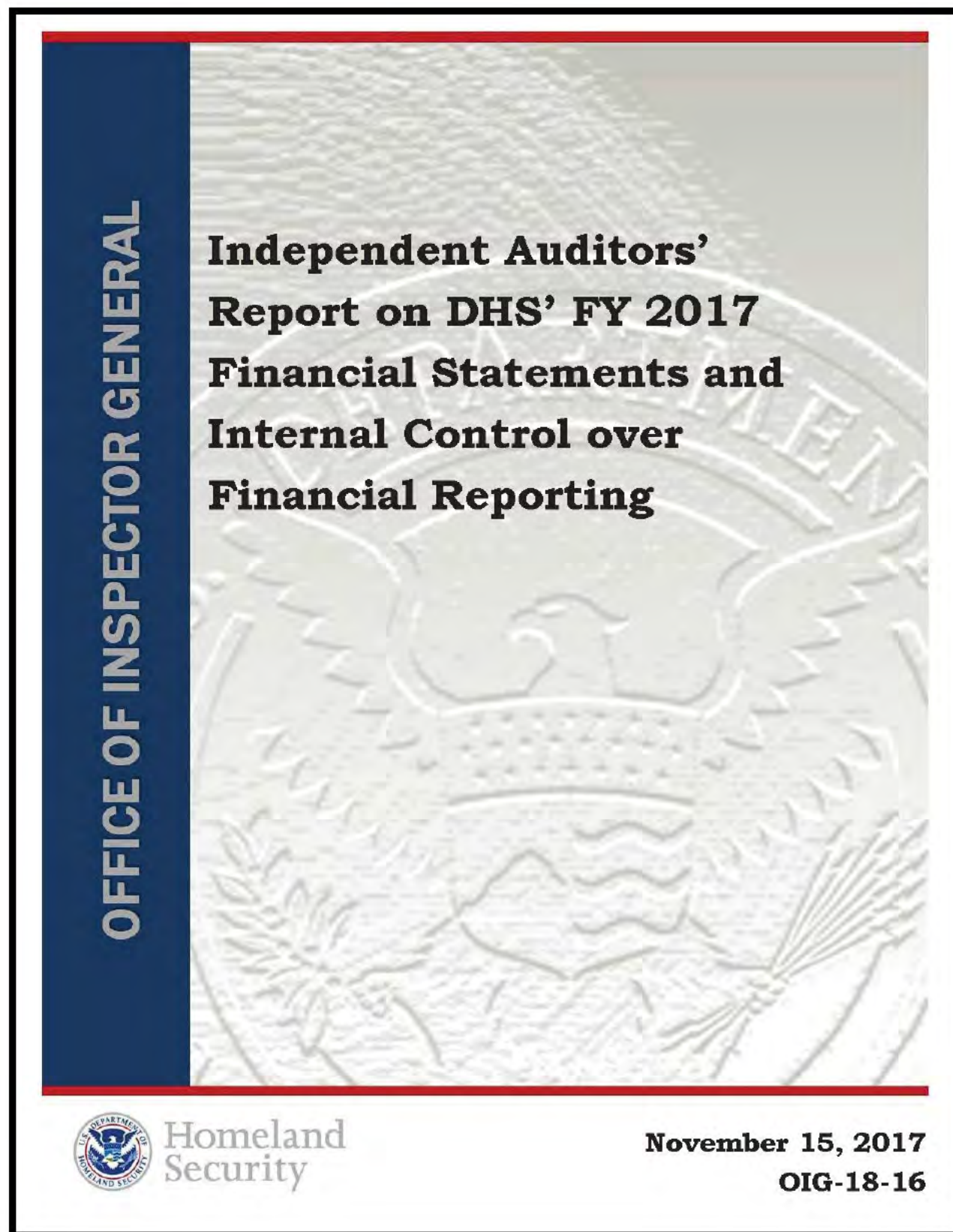
4. Risk Assumed Information

The Department has performed an analysis of the contingencies associated with the unearned premium reserve for the NFIP. The underlying calculation estimates the amount of subsidy in the total rates, removes the expense load, and applies the results to the unearned premium reserve. Any projected deficiency from the unearned premium reserves is offset by the amounts of unearned reserve fund assessments and the unearned Homeowner Flood Insurance Affordability Act surcharge. The risk assumed liability as of September 30, 2017 is \$0. This positive outcome is because the deficiency in the unearned premium due to subsidized premium – which has been declining due to the large increases in subsidized premiums mandated by Biggert-Waters Flood Insurance Modernization Act of 2012—is now more than offset by the unearned Reserve Fund Assessment and the unearned Homeowner Flood Insurance Affordability Act of 2014 surcharge.

Actual flood losses are highly variable from year to year. For the majority of years, the unearned premium reserve is adequate to pay the losses and expenses associated with the unearned premium. In those years with catastrophic flooding, the reserve will prove inadequate. However, now, with the improved financial position of the NFIP, the average, on a long-term basis, across all years is the positive cash flow from favorable loss years is expected to balance out the negative cash flow during heavy and catastrophic loss years.

Financial Information

Independent Auditors' Report





DHS OIG HIGHLIGHTS

Independent Auditors' Report on DHS' FY 2017 Financial Statements and Internal Control over Financial Reporting

November 15, 2017

Why We Did This Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576) and the *Department Of Homeland Security Financial Accountability Act* (Public Law 108-330) require us to conduct an annual audit of the Department of Homeland Security's (DHS) consolidated financial statements and internal control over financial reporting.

What We Recommend

KPMG LLP made 56 recommendations that, when implemented, would help improve the Department's internal control.

For Further Information:

Contact our Office of Public Affairs at (202) 254-4100, or email us at DHS-OIG_OfficePublicAffairs@oig.dhs.gov

What We Found

The independent public accounting firm KPMG LLP (KPMG) has issued an unmodified (clean) opinion on DHS' consolidated financial statements. KPMG noted that the financial statements present fairly, in all material respects, DHS' financial position as of September 30, 2017.

KPMG issued an adverse opinion on DHS' internal control over financial reporting as of September 30, 2017. The report identifies the following six significant deficiencies in internal control, the first two of which are considered material weaknesses, and four instances where DHS did not comply with four laws and regulations:

Significant Deficiencies

1. Information Technology Controls and Financial System Functionality
2. Financial Reporting
3. Entity-Level Controls
4. Property, Plant, and Equipment
5. Custodial Activities
6. Grants Management

Laws and Regulations with Instances of Noncompliance

1. Federal Managers' Financial Integrity Act of 1982
2. Single Audit Act Amendments of 1996
3. Anti-deficiency Act
4. Federal Financial Management Improvement Act of 1996

Management's Response

The Department concurred with the independent auditors' conclusion and indicated that management will continue to implement corrective action to improve financial management and internal control.

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**OFFICE OF INSPECTOR GENERAL**

Department of Homeland Security

Washington, DC 20528 / www.oig.dhs.gov

NOV 15 2017

MEMORANDUM FOR: The Honorable Elaine C. Duke
Acting Secretary
Department of Homeland Security

FROM: John Roth *John Roth*
Inspector General

SUBJECT: *Independent Auditors' Report on DHS' FY 2017
Financial Statements and Internal Control over
Financial Reporting*

The attached report presents the results of an integrated audit of the Department of Homeland Security's (DHS) fiscal year (FY) 2017 financial statements and internal control over financial reporting. This is a mandatory audit required by the *Chief Financial Officers Act of 1990*, as amended by the *Department of Homeland Security Financial Accountability Act of 2004*. This report is incorporated into the Department's FY 2017 *Agency Financial Report*. We contracted with the independent public accounting firm KPMG LLP (KPMG) to conduct the audit.

The Department continued to improve financial management in FY 2017 and achieved an unmodified (clean) opinion on all financial statements. However, KPMG issued an adverse opinion on DHS' internal control over financial reporting because of material weaknesses in internal control.

Summary

KPMG identified six significant deficiencies in internal control, of which two are considered material weaknesses. DHS also identified the same material weaknesses in the *Secretary's Assurance Statement*.

The following are the two significant deficiencies in internal control considered to be material weaknesses, the four other significant deficiencies in internal control, and the four laws and regulations with which KPMG identified instances of DHS' noncompliance:

Significant Deficiencies Considered To Be Material Weaknesses

- Information Technology Controls and Financial System Functionality
- Financial Reporting



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Department of Homeland Security

Other Significant Deficiencies

- Entity-Level Controls
- Property, Plant, and Equipment
- Custodial Activities: Entry Process and Refunds and Drawback
- Grants Management

Laws and Regulations with Identified Instances of Noncompliance

- *Federal Managers' Financial Integrity Act of 1982*
- *Single Audit Act Amendments of 1996*
- *Anti-deficiency Act*
- *Federal Financial Management Improvement Act of 1996*

Moving DHS' Financial Management Forward

The Department continued its commitment to identifying areas for improvement, developing and monitoring corrective actions, and establishing and maintaining effective internal controls over financial reporting this past fiscal year. Looking forward, the Department must continue remediation efforts, and stay focused, in order to sustain its clean opinion on its financial statements and obtain a clean opinion on its internal control over financial reporting.

KPMG is responsible for the attached Independent Auditors' Report dated November 14, 2017, and the conclusions expressed in the report. To ensure the quality of the audit work performed, we evaluated KPMG's qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG's audit report, and performed other procedures that we deemed necessary. Additionally, we provided oversight of the audit of financial statements and certain accounts and activities conducted at key components within the Department. Our review, as differentiated from an audit in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the financial statements or internal control or provide conclusions on compliance with laws and regulations. Our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards.

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**OFFICE OF INSPECTOR GENERAL**

Department of Homeland Security

Consistent with our responsibility under the *Inspector General Act*, we are providing copies of this report to appropriate congressional committees with oversight and appropriation responsibilities over the Department. In addition, we will post a copy of the report on our public website.

We request that the Department provide us with a corrective action plan that demonstrates progress in addressing the report's recommendations.

Please call me with any questions, or your staff may contact John E. McCoy II, Acting Assistant Inspector General for Audits at (202) 254-4100 or Maureen Duddy, Deputy Assistant Inspector General for Audits, at (617) 565-8723.

Attachment

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Department of Homeland Security

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An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditors' judgment, including the assessment of the risks that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with U.S. generally accepted accounting principles. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Basis for Adverse Opinion on Internal Control Over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. The following material weaknesses, described in Exhibit I, have been identified and included in the *Secretary's Assurance Statement*:

- A. Information Technology Controls and Financial System Functionality
- B. Financial Reporting

We do not express an opinion or any other form of assurance on management's evaluation and assurances made in the *Secretary's Assurance Statement*.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Homeland Security as of September 30, 2017 and 2016, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Also, in our opinion, because of the effect of the material weaknesses described in Exhibit I on the achievement of the objectives of the control criteria, DHS has not maintained effective internal control over financial reporting as of September 30, 2017, based on criteria established in the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States.

Financial Information



We considered the material weaknesses described in Exhibit I in determining the nature, timing, and extent of audit tests applied in our audit of the fiscal year 2017 consolidated financial statements, and these findings do not affect our unmodified opinion on the consolidated financial statements.

Emphasis of Matter

As discussed in Notes 1T, 15, and 25 of the consolidated financial statements, the Department had intragovernmental debt of approximately \$30 billion and \$23 billion used to finance the *National Flood Insurance Program* (NFIP) as of September 30, 2017 and 2016, respectively. Due to the subsidized nature of the NFIP, the Department has determined that future insurance premiums, and other anticipated sources of revenue, may not be sufficient to repay this debt. As discussed in Note 31 of the consolidated financial statements, on October 26, 2017, Congress enacted the *Additional Supplemental Appropriations for Disaster Relief Requirements Act of 2017*. This act forgives \$16 billion of the Department's debt that is included in the DHS consolidated balance sheet as of September 30, 2017. Further legislation will need to be enacted to provide funding to repay or forgive the remaining debt. Our opinion is not modified with respect to this matter.

Other Matters

Agency Financial Report

We do not express an opinion or any form of assurance on management's statement referring to compliance with laws and regulations in the accompanying *Agency Financial Report*.

Internal Control Over Financial Reporting

In accordance with *Government Auditing Standards*, we are required to report findings of significant deficiencies. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in the U.S. Department of Homeland Security's internal control, described in Exhibit II, to be significant deficiencies:

- C. Entity-Level Controls
- D. Property, Plant, and Equipment
- E. Custodial Activities: Entry Process and Refunds and Drawbacks
- F. Grants Management

DHS's response to the findings identified in our audits is described in Appendix A. DHS's response was not subjected to the auditing procedures applied in the audit of the FY 2017 consolidated financial statements and, accordingly, we express no opinion on the response.

Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly, we do not express an opinion or provide any assurance on it.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial



statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits of the consolidated financial statements were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Message from the Secretary, Message from the Chief Financial Officer, and Other Information section, as listed in the Table of Contents of the *Agency Financial Report*, is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

Compliance and Other Matters

As part of obtaining reasonable assurance about whether DHS's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit of the FY 2017 consolidated financial statements, and accordingly, we do not express such an opinion. The results of our tests of compliance disclosed the following instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 17-03, and which are described in Exhibit III:

- G. *Federal Managers' Financial Integrity Act of 1982*
- H. *Single Audit Act Amendments of 1996*
- I. *Antideficiency Act*

We also performed tests of its compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit of the FY 2017 consolidated financial statements, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, as described in finding J of Exhibit III, where DHS's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, D.C.
November 14, 2017

Financial Information

Independent Auditors' Report
Exhibit I – Material Weaknesses

The internal control weaknesses in financial reporting, and findings related to compliance with certain laws, regulations, contracts, and grant agreements, presented herein, were identified during our audits of the U.S. Department of Homeland Security's (Department or DHS) financial statements as of September 30, 2017 and internal control over financial reporting. Our findings are presented in three Exhibits:

- Exhibit I** Findings that individually or in aggregate are considered material weaknesses in internal control over financial reporting affecting the DHS consolidated financial statements.
- Exhibit II** Findings that individually or in aggregate are considered significant deficiencies in internal control over financial reporting, which are less severe than a material weakness, yet important enough to merit attention of DHS management and others in positions of DHS oversight.
- Exhibit III** Instances of noncompliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters that are required to be reported under *Government Auditing Standards* or Office of Management and Budget (OMB) Bulletin No. 17-03, *Audit Requirements for Federal Financial Statements*.

Criteria *Index of Financial Reporting and Internal Control Criteria*

The determination of which findings rise to the level of a material weakness or significant deficiency is based on an evaluation of how deficiencies identified in all Components, considered in aggregate, may affect the Department's internal control over financial reporting as of September 30, 2017.

We have reported the following two material weaknesses, four significant deficiencies, and four instances of noncompliance at the Department level for FY 2017:

Material Weaknesses (Exhibit I):

Comment	Financial Statement Area
A	Information Technology Controls and Financial System
B	Financial Reporting

Significant Deficiencies (Exhibit II):

Comment	Financial Statement Area
C	Entity-Level Controls
D	Property, Plant, and Equipment
E	Custodial Activities: Entry Process and Refunds and Drawbacks
F	Grants Management

Compliance and Other Matters (Exhibit III):

Comment	Compliance Area
G	Federal Managers' Financial Integrity Act of 1982
H	Single Audit Act Amendments of 1996
I	Antideficiency Act
J	Federal Financial Management Improvement Act of 1996

The criteria supporting our findings, such as references from technical accounting standards, various rules and regulations, including requirements issued by the OMB and the U.S. Department of the Treasury (Treasury), and internal Departmental and Component directives, are presented in the *Index of Financial Reporting and Internal Control Criteria* behind Exhibit III.

All Components of DHS, as defined in Note 1A – *Reporting Entity* to the financial statements, were considered in the scope of our audits of the DHS financial statements and internal control over financial reporting.

Independent Auditors' Report

Exhibit I – Material Weaknesses

I-A Information Technology Controls and Financial System Functionality

Background: Information technology controls are a critical subset of an entity's internal control. They are typically categorized as either general IT controls (GITCs) or business process application controls (application controls). GITCs operate over all or a large portion of systems and represent the foundation of an IT control structure. They are applied at the entity-wide, system, and application level and include controls over security management, access, configuration management, segregation of duties, and contingency planning. Effective GITCs are necessary to create the foundation for the effective operation of application controls. Application controls are those controls that directly relate to specific IT applications and ensure the complete and accurate processing of data.

During our FY 2017 assessment of GITCs, we noted DHS made some progress in remediating IT findings we reported in FY 2016; however, new findings were identified in FY 2017. Additionally, management did not take appropriate corrective action to address ongoing pervasive deficiencies that we identified in multiple information systems and reported to management as a material weakness for several years. We deemed the following internal control deficiencies to, collectively, be a material weakness in internal control over financial reporting.

Conditions Related to GITCs: The control deficiencies in GITCs represent an overall elevated risk of material misstatement as the Department lacks sufficient manual controls in process areas to fully mitigate these GISC deficiencies. Deficiencies indicated in this Exhibit are a cross-section of GISC deficiencies identified. We identified the following:

Access Controls/Segregation of Duties

DHS did not:

- adequately and consistently design and implement controls over initial authorization and periodic recertification of application, database, and operating system user, service, and generic accounts (including emergency, temporary, developer, and migrator access) and ensure adherence to the principles of least privilege and segregation of duties.
- consistently implement technical controls over logical access to key financial applications and underlying system software components in accordance with DHS requirements. Technical controls included password and inactivity requirements and account and data protection security configurations.
- fully implement or consistently perform controls over the generation, review, analysis, and protection of application, database, and operating system audit logs.
- implement controls related to review and revocation of system access to ensure consistent and timely removal of access privileges from financial systems and general support systems for transferred and/or terminated employees and contractors.

Furthermore, some DHS Components use third-party systems for processing portions of human resource related transactions. We tested complementary user entity controls that DHS is responsible for implementing, and we identified access control failures across multiple Components.

Configuration Management

DHS did not consistently or completely:

- develop and formally document policies and procedures for the configuration management process.
- maintain a complete and accurate listing of all implemented system changes.
- maintain documentation of configuration management changes in accordance with DHS policy.

Conditions Related to Financial System Functionality: During our audit, we also evaluated and considered the impact of financial system functionality on financial reporting. In recent years, we noted that limitations in the Department's financial systems' functionality inhibit its ability to implement and maintain effective internal control, and to effectively and efficiently process and report financial data. Many key DHS financial systems were not compliant with Federal financial management system requirements as defined by FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*.

Financial Information

Independent Auditors' Report

Exhibit I – Material Weaknesses

GITCs and financial process areas were implemented or supported by manual processes, decentralized systems or records management processes, or utilities with limited automated capabilities at several DHS Components. These functionality limitations introduced a high risk of error and resulted in inconsistent, incomplete, or inaccurate control execution and supporting documentation.

In addition, system limitations contributed to deficiencies identified in multiple financial process areas across the Department. For example, system configurations and posting logic deficiencies limited the effectiveness of controls to accurately record certain activity at the transaction level, identify funding variances, or prevent or detect and correct excessive drawback claims. In some cases, Components implemented manual processes to compensate for these limitations; however, these manual processes were more prone to error and increased the risk that financial data and transactions were improperly recorded in the respective systems.

Cause: The control deficiencies described in this Exhibit stem from a number of systemic root causes across the Department. In many cases, inadequately designed and implemented or ineffectively operating controls were caused by the following: resource limitations; ineffective or inadequate management oversight, awareness, and training; the complex, highly interrelated yet decentralized nature of systems and system components; a lack of communication between offices in the same organization regarding GITC ownership; a lack of continual self-review and risk assessments performed over GITCs; and/or error-prone manual processes. In some cases, cost-prohibitive options for vendor support limited system development activity to "break/fix" and sustainment activities.

Root causes related to deficient entity-level controls are further discussed in Comment II-C, *Entity-Level Controls*.

Effect: Deficiencies related to access controls and segregation of duties increase the risk that current employees, separated employees, or contractors may obtain unauthorized or inappropriate access to financial and support systems or data. Such access could lead to unauthorized activities or inappropriate disclosures of sensitive data. Deficiencies related to configuration management increase the risk that unauthorized or inappropriate changes to systems will be applied and go undetected by management, resulting in lower assurance that information systems will operate as intended and that data is reliable, valid, and complete.

The conditions supporting our findings collectively limit the Department's ability to process, store, and report financial data in a manner that ensures accuracy, confidentiality, integrity, and availability. The aggregate impact of the GITC deficiencies result in a pervasive risk within the consolidated financial statements that a material misstatement will not be prevented or detected and corrected in a timely manner as the process level application controls that are supported by the GITCs are rendered ineffective. Ineffective process level application controls, in turn, create a need for mitigating controls which were often not present or designed, implemented, and operating at a level of precision to prevent and/or detect a material misstatement. Additionally, mitigating controls often were more manual in nature, increasing the risk of human error that could materially affect the financial statements. We identified deficiencies related to design, implementation, operating effectiveness, and lack of manual mitigating controls, which contributed to the findings reported in Exhibits I, II, and III. Furthermore, due to these GITC deficiencies, we deemed certain key manual controls throughout the Department ineffective as they are dependent upon application controls to ensure the completeness and accuracy of information personnel produced from systems for use in the operation of those manual controls.

Until DHS addresses its legacy IT issues and implements updated IT solutions, it is reliant on compensating controls and other complex manual workarounds to support its IT environment and financial reporting processes.

Criteria: We do not present relevant criteria for IT controls and financial system functionality due to the sensitive nature of the Department's systems. Relevant criteria is provided in individual limited distribution (For Official Use Only) Notices of Findings and Recommendations (NFRs) to DHS and Component management.

Recommendation:

1. We recommend that the DHS Office of the Chief Financial Officer (OCFO), in coordination with the Office of the Chief Information Officer (OCIO) and Component management, make the necessary improvements to the Department's supporting IT general controls. Specific, more detailed

Independent Auditors' Report

Exhibit I – Material Weaknesses

recommendations were provided in individual limited distribution NFRs to DHS and Component management.

I-B Financial Reporting

Background: Financial reporting relates to the preparation of financial information for inclusion in the financial statements and related disclosures and includes the activities for initiation, authorization, recording, and processing transactions in the general ledger. It includes procedures related to the selection and application of accounting policies and management's oversight of the process.

The Department continued to implement corrective action plans and made progress in certain areas, such as the United States Coast Guard (USCG or Coast Guard) improving the design of management review controls over actuarial liabilities. Coast Guard management demonstrated greater understanding of the actuarial pension and healthcare valuation processes, including assumptions and sources of data used in the valuations. However, management needs to refine these controls. Additionally, deficiencies we identified in FY 2016 persisted, and we identified new deficiencies at United States Secret Service (USSS). We deemed the following internal control deficiencies to, collectively, be a material weakness in internal control over financial reporting:

Conditions pervasive across the Department:

- The Department lacked sufficient manual controls in process areas to fully mitigate the risks caused by GIRC deficiencies.
- The Department did not maintain effective internal control related to service organizations, including evaluating and documenting the roles of service and sub-service organizations; performing effective reviews of service organization control (SOC) reports; considering and/or implementing complementary user entity controls identified in SOC reports; and assessing and addressing service provider risk in the absence of SOC reports.

Cause: The Department lacks robust continuous monitoring and testing of IT general controls necessary to identify weaknesses, assess the resulting risks created by IT deficiencies, and respond to those risks through compensating controls. The lack of compensating controls results in the Department's noncompliance with the requirements of FFMIA and OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996* as reported in Comment III-J, *Federal Financial Management Improvement Act of 1996* (FFMIA). Personnel tasked with evaluating the roles of service organizations and the controls at service organizations as well as complementary user entity controls within the Components relying on those service organizations often do not possess the required understanding of internal control or the related business process to perform an effective assessment.

Conditions related to the review and approval of journal entries:

- Coast Guard lacked effective controls:
 - over the review of manual adjusting journal entries to prevent and/or detect and correct financial reporting errors and to ensure activity aligned with actual current year business events;
 - to ensure accuracy of certain beginning balance and year-end close-out activities, at the transaction level, in its three general ledgers due to on-top adjustments for all activity only being recorded to one general ledger.
- CBP did not have effective controls related to the preparation and review of manual entries, including underlying information. Specifically:
 - Management lacked effective controls over manual journal entries related to the reporting of cash collections on the statement of custodial activity.
 - Management recorded manual budget entries in the general ledger without appropriate supporting documentation.

Financial Information

Independent Auditors' Report
Exhibit I – Material Weaknesses

- USSS did not design and implement effective controls over the review and approval and related segregation of duties of manual journal entries. Specifically:
 - Management recorded several journal entries directly to DHS Treasury Information Executive Repository (the central repository for key financial management information for DHS Components), for which support did not exist and approval was not evidenced.
 - Management did not record entries related to the pension liability and expense for the proper amounts or to the proper standard general ledger accounts.

Cause: The Coast Guard's three legacy general ledger systems, developed over a decade ago, have severe functional limitations and necessitate large manual adjusting entries to compensate for the ability to record transactions correctly upon initiation. The magnitude of these entries inhibit management from performing adequate reviews of activity for reasonableness and alignment with current year business events. These system functionality limitations also hinder Coast Guard's ability to ensure accuracy of certain beginning balance and year-end close-out activities. Also refer to IT financial system functionality issues described at Comment I-A, *Information Technology Controls and Financial System Functionality*. Due to high turnover of key financial management personnel and the lack of well-defined policies and procedures, USSS personnel lacked sufficient knowledge to properly perform the review and approval of manual journal entries. CBP personnel also lacked sufficient knowledge to properly perform the review and approval of manual entries, primarily due to a lack of adequate training and coordination with financial reporting personnel.

Conditions related to actuarially derived estimates:

- Coast Guard did not sufficiently design, implement, or adequately document:
 - management's review of relevant assumptions, specifically related to newly developed internal experience studies, used in the valuation of the actuarial pension and healthcare liabilities.
 - management's review of the actuary-prepared valuation reports for the pension and healthcare liabilities to include sufficiently precise review thresholds in which to evaluate the impact of changes in assumptions on the valuation results and reconciling underlying report data.
 - controls to reconcile medical claims data to ensure completeness and accuracy of the underlying data prior to submission of the data to the external actuary for use in the valuation of the actuarial healthcare liability.
- USSS did not fully assess risk, design and implement sufficient controls, and document processes over its actuarial pension liability. Specifically, management did not:
 - implement sufficient controls for management review of assumptions used in the valuation of the liability.
 - implement policies and procedures to document their consideration and assessment of estimation uncertainty; contradictory evidence; continued appropriateness of assumptions and estimation methodology; and retrospective review of assumptions and normal cost associated with the plan.
 - implement controls to validate the completeness and accuracy of underlying data used in the valuation of the liability.

Cause: Coast Guard made improvements in internal control related to actuarial liabilities, yet management did not fully understand the extent of their internal control responsibilities. Management did not appropriately document and perform to a sufficient level of precision its review controls related to the estimates. USSS management did not possess a sufficient understanding of the USSS actuarial pension valuation process to fully assess the appropriateness of the assumptions due to over reliance on an external actuary. In addition, existing policies and procedures were not sufficiently specific to enable new employees to review census data changes or complete the annual review checklist.

Other financial reporting related conditions:

- Coast Guard lacked controls to reconcile intra-governmental activities and balances and ensure that transactions were recorded to the correct trading partner at the time the business event occurred.

Independent Auditors' Report

Exhibit I – Material Weaknesses

- USSS did not establish an accrual methodology to properly recognize and record expenses and accounts payable within the period the goods or services were delivered or received.
- USSS lacked properly designed and implemented controls over the preparation and review of periodic financial information at an appropriate level of precision in various processes, including payroll and budgetary obligations and transactions (see also **Comment II-D, Property, Plant, and Equipment**).

Cause: Financial system functionality issues also hindered Coast Guard's ability to ensure that transactions were recorded to the correct trading partner at the time of the business event, which, in turn, impacted their ability to reconcile intra-governmental activities and comply with relevant Federal financial system requirements and guidelines as noted in **Comment III-J, Federal Financial Management Improvement Act of 1996 (FFMIA)**. Also refer to IT financial system functionality issues described at **Comment I-A, Information Technology Controls and Financial System Functionality**. Due to high turnover of key financial management personnel and the lack of well-defined policies and procedures, USSS personnel lacked sufficient knowledge and an effective communication structure to carry out critical financial reporting functions.

Root causes related to deficient entity-level controls are further discussed in **Comment II-C, Entity-Level Controls**.

Effect: The aggregate impact of the financial reporting deficiencies result in a pervasive risk across the consolidated financial statements that a material misstatement will not be prevented or detected and corrected in a timely manner.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III

Recommendations: We recommend that:

DHS:

2. develop continuous monitoring and testing of IT general controls to identify weaknesses, assess the resulting risks created by any identified IT deficiencies, and respond to those risks through implementing compensating controls.
3. align knowledgeable resources to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess complementary user entity controls within the Components relying on those service organizations.

Coast Guard:

4. improve and reinforce existing policies, procedures, and related internal controls to ensure that:
 - a. management adequately researches, supports, and reviews all journal entries and adjusting entries prior to recording in the general ledger.
 - b. management records approved on top adjustment entries in the correct underlying general ledger systems in order to generate accurate beginning balances.
 - c. personnel record transactions to the accurate trading partner upon initiation; reconcile all intra-governmental balances with trading partners; and resolve differences in a timely manner.
 - d. management enhances documentation of their actuarial liability estimate reviews and refines their review of the actuarial liabilities report, underlying data, and assumptions to include precise reconciliations and thresholds.

USSS:

5. establish new, or improve existing, policies, procedures, and related internal controls over the valuation of its pension liability to ensure:
 - a. personnel adequately understand the pension estimate.
 - b. management maintains oversight of assumptions used in significant estimates and routinely evaluates continued appropriateness of those assumptions.

Financial Information

Independent Auditors' Report **Exhibit I – Material Weaknesses**

- c. management completes the annual pension checklist.
 - d. management reviews the underlying census data at least annually.
 - 6. develop and implement policies and procedures over the review of manual journal entries.
 - 7. develop and implement policies and procedures for an accrual methodology.
 - 8. design and implement controls over the preparation and review of periodic financial information.
- CBP:
- 9. provide additional training to individuals who prepare and review manual entries that emphasizes the impact of entries on the reporting of financial information.

Independent Auditors' Report

Exhibit II – Significant Deficiencies

II-C Entity-Level Controls

Background: Entity-level controls are controls that have an overarching or pervasive effect on an entity. They include the entity's culture, values, and ethics, as well as the attitudes, awareness, and actions of management and those charged with governance concerning the entity's internal control. Entity-level controls reside in all five components of internal control – control environment, risk assessment, control activities, monitoring, and information and communications – as defined by the *Standards for Internal Control in the Federal Government* issued by the Comptroller General of the United States. These controls must be effectively designed, implemented, and operating together in an integrated manner to create and sustain an organizational structure that is conducive to reliable financial reporting.

The conditions below should be read in conjunction with Comment **I-A**, *Information Technology Controls and Financial System Functionality*; Comment **I-B**, *Financial Reporting*; Comment **II-D**, *Property, Plant, and Equipment*; Comment **II-E**, *Custodial Activities: Entry Process and Refunds and Drawbacks*; and Comment **II-F**, *Grants Management*.

Conditions, Cause/Effect, and Recommendations: During our audit we identified certain control deficiencies for which underlying causes were similar and pervasive throughout the Department. The resulting recommendations, which we provided to correct the deficiencies, are based on improvements needed in management's control environment, risk assessment process, communication practices throughout the Department, and its monitoring activities. Without improvements in these areas, management will be unable to overcome long-standing internal control weaknesses. Accordingly, we deemed the entity-level control deficiencies described below to, collectively, merit the attention of those charged with governance.

Control Environment: The Department has established an organizational structure and assigned responsibilities in a manner to allow Components to operate efficiently and effectively to achieve their objectives. As such, internal control responsibilities are assigned to Components that are responsible for establishing an internal control system at the Component level. Individual Components have differing levels of control environment effectiveness. Additional Department-level leadership is required to address the following areas of the control environment at certain components:

10. filling needs for technical and resource personnel support to remediate severe control deficiencies or prevent deterioration of the internal control system.
11. assessing training needs for personnel and aligning skills with roles and responsibilities; and ensuring individuals in key roles with internal control responsibilities possess the appropriate competencies to perform their duties and are held accountable for their internal control responsibilities.
12. ensuring significant accounting policies and standard operating procedures are formally documented, complete, updated, and revised timely.
13. defining roles and responsibilities of program and field personnel that provide key financial information, and ensuring those personnel understand and comply with policies.
14. establishing a structure with central ownership and oversight for internal controls where responsibilities have been delegated to discrete units.
15. defining succession and contingency plans for key roles involved in internal control over financial reporting to mitigate risks due to employee turnover.

Risk Assessments: The Department has not fully matured its risk assessment processes. As a result, events and transactions that have a greater likelihood of error do not always receive an appropriate level of attention. Risk assessments should be enhanced at both the headquarters level by Departmental management, and individual Components annually, and updated during the year as needed. Examples of areas that should be analyzed and responded to accordingly to enhance the risk assessments include:

16. planned changes that could impact the internal control system, such as financial system transitions and implementation of new tools.
17. processes reliant on information from service organizations, and effectiveness of controls operating at those service organizations.

Financial Information

Independent Auditors' Report
Exhibit II – Significant Deficiencies

18. processes and controls in which management relies on system generated or manually prepared reports to respond to risk of incomplete or inaccurate information within those reports
19. financial accounts and transactions that are susceptible to error due to IT systems functionality issues and inability to rely on application controls supported by IT general controls that are deficient. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*.

Information and Communications: Communications within Components, between headquarters and Components, and between financial and IT management, should be improved to ensure:

20. coordination between headquarters and Components with resource constraints to respond to financial accounting and reporting risks and control deficiencies.
21. the structure, process, and communication between key stakeholders is sufficient to ensure there is a complete understanding of the end-to-end flow of transactions for key business processes that impact financial reporting.
22. individuals within the financial reporting, accounting and budget departments identify and use quality information for financial reporting.
23. roles and responsibilities of program and field personnel that provide key financial information are communicated, and that those personnel understand and comply with policies.
24. individuals with key internal control responsibilities have a sufficient understanding of the implication of IT vulnerabilities and limitations, and manual compensating internal controls are designed and implemented to mitigate risk.
25. monitoring across larger Components with decentralized operations to ensure responsibilities have been properly assigned and clearly communicated, and that internal control over financial reporting and compliance with direct and material laws and regulations have been properly designed and implemented and are operating effectively across the organization.

Monitoring Controls: As a result of its monitoring activities, which included executive level support, the Department continued to make progress in identifying and remediating control deficiencies in certain areas. However, the Department did not effectively monitor the implementation of corrective actions for all reportable deficiencies identified in the prior year. Additionally, Component management did not always design detective controls (e.g., management review controls of the financial statements) to a proper level of precision to compensate or mitigate weak preventative or process level controls. Consequently, errors, or a combination of errors, in the financial statements could go undetected. These conditions also impact compliance with the *Federal Managers' Financial Integrity Act of 1982*, as cited in Comment **III-G**.

We recommend that DHS:

26. design continuous monitoring controls to ensure personnel with internal control oversight responsibilities adequately examine transactions with a higher risk of error.
27. seek opportunities to implement more reliable controls earlier in the process to prevent errors at the transaction source.
28. enhance internal testing of both financial and IT controls to identify and remediate deficiencies as they may arise in order to sustain auditable financial statements in the future.

II-D Property, Plant, and Equipment

Background: In FY 2017, the Coast Guard and the National Protection and Programs Directorate (NPPD) made significant improvements in demonstrating the design and operating effectiveness of internal controls over PP&E. Specifically related to USCG, which comprises over half of the DHS consolidated PP&E balance, we noted improvement in management's establishment of internal controls related to PP&E and alignment of these responsibilities to personnel in key roles with the appropriate expertise for performing the related control activities. NPPD implemented controls to ensure proper classification of expenditures as capital or expense and to track asset activity at a transaction level to ensure proper recording of asset activity. Though some control

II.2

Independent Auditors' Report

Exhibit II – Significant Deficiencies

deficiencies identified in FY 2016 at NPPD related to PP&E persisted, we did not deem the deficiencies warranted the attention of those charged with governance.

USSS, however, continued to experience significant issues in their design and implementation of PP&E controls. USSS property primarily consists of equipment used to protect national leaders, visiting heads of state and governments, designated sites, and national special security events. USSS property also consists of buildings and leasehold improvements related to field offices and its headquarters.

Conditions: We determined the following remaining deficiencies at USCG, considered in aggregate with the following deficiencies at USSS, to merit the attention of those charged with governance:

Coast Guard did not:

- incorporate precise thresholds in their design and implementation of controls over the management review of the construction-in-progress (CIP) rollforward schedule of activity in order to appropriately evaluate the validity of activity and ensure alignment with business events.
- effectively design and implement control procedures over management's review of the classification of CIP costs to ensure a sufficient number of cost decisions are reviewed to identify and evaluate any pervasive inaccuracies in the underlying allocation.
- effectively design and implement controls over the physical count of real property assets to ensure assets are sufficiently inventoried such that assets which are no longer functional are timely identified and impaired.
- have controls that were operating effectively over the timely recording of fixed asset addition and retirement activity in the general ledger.

USSS did not:

- design and implement controls and processes to reconcile its PP&E detailed sub-ledger to the general ledger.
- implement established inventory policies and control procedures to ensure the completeness, existence, and accuracy of real and personal property assets.
- design and implement sufficient controls to appropriately track asset activity at a transaction level, and ensure the timely recording of asset additions, deletions, or other adjustments to PP&E.
- design and implement controls and processes to identify instances of and criteria for asset impairment.

Cause: During FY 2017, Coast Guard utilized a risk based approach to remediation of control deficiencies that prioritized the refinement of the design, development, and implementation of control processes related to monitoring of PP&E. However, management lacked an appropriate level of precision to sufficiently evaluate all CIP activity and did not focus efforts on remediation of deficiencies related to real property inventories and the timely recording of asset activity.

USSS did not properly assess the risks and implement controls related to the capital property processes, including proper integration between the sub-ledger and general ledger. USSS did not have the appropriate resources to monitor and oversee the reporting and recording of capital property. Additionally, the Administrative Operations Division and the Financial Management Division did not communicate sufficiently to ensure proper accountability. As a result, USSS experienced significant difficulties in providing complete and accurate data to support operating controls and year-end PP&E balances.

Root causes related to deficient entity-level controls are further discussed in *Comment II-D, Entity-Level Controls*.

Effect: The aggregate impact of the PP&E deficiencies result in a risk that misstatements related to the completeness, existence, and valuation of PP&E are not prevented and/or detected and corrected in a timely manner.

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Independent Auditors' Report
Exhibit II – Significant Deficiencies

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that:

Coast Guard:

29. enhance controls over the management review of the CIP rollforward to ensure validity of activity within defined thresholds and accurate recording in the general ledger.
30. further develop the design of controls over the review of CIP activity cost decisions to ensure a sufficient number of review is completed.
31. refine the design of controls over the physical count of real property assets to ensure the completeness and existence of all real property assets.
32. reinforce controls over the timely recording of asset addition and retirement activity.

USSS:

33. design and implement controls and procedures to perform reconciliations between the PP&E sub-ledger to the general ledger and reconcile all significant differences.
34. adhere to established inventory policies and procedures, and design and implement controls to appropriately track asset activity at the transaction level and ensure the timely recording of asset additions, deletions, or other adjustments.
35. establish new, or improve current, communication channels and standard operating procedures within the Administrative Operations Division and Financial Management Division to ensure sufficient review of personal and real property activity and balances, including equipment, internal-use software, land, buildings and other structures, and to verify costs are appropriate and reflect USSS's business operations during the fiscal year.
36. design and implement controls and processes to identify instances and criteria for asset impairment.
37. attract and deploy additional skilled resources within the Administrative Operations Division and Financial Management Division to support the control environment and provide the necessary financial reporting oversight.

II-E Custodial Activities: Entry Process and Refunds and Drawbacks

Background: CBP comprises approximately 99% of the Department's custodial activities. The majority of CBP's custodial collections are from merchandise entering the United States from foreign ports of origin, against which CBP assesses import duties, taxes, and fees. Receipts of import duties and disbursement of refunds are presented on the statement of custodial activity. Any taxes, duties and trade receivables (TDTR) related to merchandise that has entered commerce but has not been collected is recorded on the DHS balance sheet as TDTR. TDTR also includes any fines and penalties and supplemental duty bills, including anti-dumping and countervailing duties that CBP has assessed against the trade due to non-compliance with trade laws. To ensure the subsequent collection of these unpaid duties, taxes and fees, CBP requires bonds from parties that import merchandise into the United States. The assessment of liquidated damages against a bond serves to promote compliance with laws and regulations (identified as the entry process).

Drawback claims are a remittance, in whole or in part, of duties, taxes, or fees previously paid by an importer. Drawback claims typically occur when imported goods on which duties, taxes, or fees have been previously paid are subsequently exported from the United States or destroyed prior to entering the commerce of the United States. The *Trade Facilitation and Trade Enforcement Act of 2015* (TFTEA) contained provisions for drawback modernization that simplify the rules for determining if exports are eligible for drawback refunds, expand the timeframe for drawback claims, and eliminates some of the documentation requirements.

Many of the conditions cited below have existed for several years. Management has stated that the timeframe for remediation of these conditions is dependent on successful implementation of IT system upgrades and the TFTEA legislation changes.

Independent Auditors' Report

Exhibit II – Significant Deficiencies

Conditions: We identified the following internal control deficiencies related to custodial activities at CBP that we deemed to, collectively, merit the attention of those charged with governance:

Related to the Entry Process:

- CBP did not clearly establish consistent procedures for completing and documenting the review of the entry edit and exception reports. Port personnel performed and documented their reviews inconsistently from port to port and did not consider the completeness and accuracy of the data used in the performance of the controls. Additionally, port personnel did not subject items that have been reviewed or prepared by a Center of Excellence and Expertise to the same level of review as those items that were prepared by the port.
- Port personnel did not effectively review the sufficiency of bonds used for entry by importers and brokers. Specifically, management was unable to demonstrate that port personnel reviewed Single Transaction Bonds (STBs) for sufficiency.
- The automated control designed to monitor the sufficiency of continuous bonds did not accurately capture necessary financial data to ensure the sufficiency of those bonds.
- CBP did not properly design controls to ensure the proper recording of fines, penalties and forfeitures (FP&F) related to TDTR and the associated allowance balance. Specifically, CBP did not have a consistently executed process to update receivable amounts for offers in compromise or mitigated receivables.
- CBP did not properly design controls to ensure the timely resolution of liabilities for deposit accounts, which are reported as part of other non-governmental liabilities on the balance sheet. Specifically, CBP did not have a consistently executed process to recognize prior disclosures and other deposits as custodial revenue once a specifically identifiable, legally enforceable claim to the deposit arises.

Related to Refunds and Drawbacks:

- The current refunds and drawbacks IT system lacked effective automated controls to prevent, or detect and correct, excessive drawback claims. The programming logic did not link drawback claims to imports at a sufficiently detailed level. In addition, the system did not have the capability to compare, verify, and track essential information on drawback claims to the related underlying consumption entries and export documentation upon which the drawback claim was based. Further, the system had not been configured to restrict drawback claims to 99 percent of each entry summary, in accordance with regulations for applicable drawback claims.
- Manual drawback review policies did not require drawback specialists to review prior drawback claims at a sufficient level of detail against a selected import entry to determine whether, in the aggregate, an excessive amount was claimed against import entries.
- Documentation retention periods were not appropriate to ensure that importers maintained support for drawback transactions for the full claim time-period and CBP maintained support for importers qualifying for accelerated filer status.
- Automated controls did not operate effectively to prevent a claimant from exceeding the continuous bond amount on file.

Cause/Effect: Policies and procedures over the review of entry edit, and exception reports were not sufficiently to ensure personnel performed the controls consistently at all ports and Centers of Excellence and Expertise during FY 2017. In addition, existing policies and procedures do not require timely coordination with all applicable parties. Failure to consistently adhere to existing policies and procedures for review and verification of reports may result in a potential misstatement to the balance of net TDTR and total cash collections on the statement of custodial activities. Inadequate controls could result in CBP's failure to identify amounts that are due to the Treasury general fund.

CBP did not consistently adhere to policies and procedures for the review of STBs; and CBP management did not develop and communicate policies and procedures to uniformly perform and document the manual review

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Independent Auditors' Report
Exhibit II – Significant Deficiencies

of STBs for sufficiency. The mandated timeframe for the transition from CBP's legacy to new entry system and resource constraints prevented CBP from fully developing policies and procedures before implementing operational changes. Additionally, resource constraints inhibited management's ability to timely remediate the monitoring of continuous entry bonds.

Failure to fully establish and define control environments related to the entry process, including FP&F and liability for deposit accounts, could lead to potential misstatements of net TDTR and other non-governmental liabilities on the DHS balance sheet and total cash collections on the statement of custodial activities.

IT system functionality and outdated IT systems contribute to the weaknesses identified above. Refer to Comment **I-A**, *Information Technology Controls and Financial System Functionality*. The Automated Commercial System (ACS) does not provide the necessary functionality to prevent the overpayment of drawback claims. CBP plans to replace its drawback system in the future. However, until such implementation occurs, CBP does not currently have sufficient resources to effectively perform compensating manual controls over drawback claims. TFTEA changes the statutes that govern the drawback process and further reduces the need for manual controls. However, it does not take effect until February 2018. The length of the drawback claim lifecycle often extends beyond the documentation retention period, which is set by statute. Until effective automated and manual controls are implemented over the drawback process, CBP may be subject to financial loss due to excessive drawback claims. In addition, drawback claims are governed by the laws and regulations in effect at the time of filing. As the length of the drawback lifecycle can last several years, it will take several years for claims existing prior to the implementation of TFTEA to be completed.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III.

Recommendations: We recommend that CBP:

Related to the Entry Process:

38. update and redistribute guidance to appropriate personnel regarding the relevant CBP directives to ensure consistent performance of controls across all locations and provide training to all personnel on new policies to ensure consistent implementation at decentralized locations.
39. develop policies and procedures to ensure that each STB is reviewed for sufficiency until automation occurs.
40. fully implement the automated controls over continuous transaction bond processing.
41. enhance policies and procedures over the review of FP&F and liability for deposit account balances to ensure balances are properly stated at year-end.

Related to Refunds and Drawbacks:

42. continue with the scheduled implementation of the new drawback system.
43. implement requirements of TFTEA, which will take effect beginning in February 2018.
44. continue to enhance the manual controls to prevent, or detect and correct excessive drawback claims after the implementation of TFTEA, as current claims will take several years to be processed through the drawback lifecycle.
45. implement policies and procedures to ensure supporting documentation for accelerated filer status is maintained.

II-F Grants Management

Background: The Federal Emergency Management Agency (FEMA) is the primary grantor within DHS, managing multiple Federal disaster and non-disaster grant programs.

Conditions: The majority of the following internal control deficiencies related to grants management were reported in the prior year and persisted in FY 2017. We deemed these deficiencies to, collectively, merit the attention of those charged with governance.

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Exhibit II – Significant Deficiencies

FEMA did not:

- effectively communicate policies and procedures to the regional offices, where the majority of day-to-day management of its grantees occurs, to ensure that internal controls over the monitoring of grantees' compliance with laws and regulations had been properly designed and implemented, and were operating effectively.
- issue Management Decision Letters timely for single audit reports available in the Federal Audit Clearinghouse.
- reconcile grantee quarterly financial reports to FEMA's systems consistently and effectively
- consistently implement effective controls to ensure timely closeout of FEMA's grants.

Cause/Effect: FEMA did not fully implement policies and procedures over its grant program in order to ensure compliance with the *Single Audit Act*, as implemented by the Super Circular. In addition, FEMA did not have a grants IT system in place to efficiently and comprehensively track grants to help ensure that all programmatic events were accurately and timely completed and properly recorded to the general ledger. Manual processes, which were not always effective, were used to reconcile open grants within grants systems to FEMA's general ledger system, and to track grants eligible for close-out. Refer to Comment I-A, *Information Technology Controls and Financial System Functionality*. Although responsibilities surrounding grants management have been assigned to discrete units within the organization, there is no overall central oversight to ensure the delegated responsibilities are being effectively carried out for all grants. Thus, FEMA cannot ensure there is effective management and administration of the grants process, as well as compliance with provisions of the *Single Audit Act*. Specifically, the lack of standardized internal controls within FEMA caused difficulty in assembling a comprehensive status of the cash on hand at grantees and the status of grants eligible for close-out, which creates risk of excessive cash on hand at grantees and untimely closure of grants.

Criteria: Presented in *Index of Financial Reporting and Internal Control Criteria*, after Exhibit III

Recommendations: We recommend that FEMA:

46. assign the responsibility for central oversight of grants management to one program office within FEMA.
47. complete the implementation of policies and procedures to ensure full compliance with the *Single Audit Act* related to receipt and review of grantees' single audit reports.
48. implement monitoring procedures over obtaining, reviewing timely, and reconciling required quarterly grantee reports.
49. develop and implement procedures to reconcile grant award information maintained in grant IT systems to the general ledger.
50. develop and implement procedures to create and track comprehensive lists of FEMA grants that are eligible for close-out.
51. implement a continuous quality assurance and grants monitoring process to include review of corrective actions resulting from implementation of the above recommendations.

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Independent Auditors' Report
Exhibit III – Compliance and Other Matters
III-G Federal Managers' Financial Integrity Act of 1982 (FMFIA)

FMFIA requires agencies to establish effective internal control and financial systems and to continuously evaluate and assess the effectiveness of their internal control. DHS's implementation of OMB Circular No. A-123 facilitates compliance with the FMFIA. DHS has implemented a multi-year plan to achieve full assurance on internal control. However, the DHS Secretary's *Assurance Statement* dated November 14, 2017, as presented in *Management's Discussion and Analysis* of the Department's FY 2017 *Agency Financial Report* (AFR), acknowledged the existence of material weaknesses, and therefore provided qualified assurance that internal control over financial reporting was operating effectively as of September 30, 2017. Management's findings were similar to the control deficiencies we have described in Exhibits I and II. However, continuous monitoring and testing of both financial and IT controls was not performed over all significant areas.

While we noted the Department progressed toward full compliance with FMFIA and OMB Circular No. A-123, the Department did not fully established effective systems, processes, policies, and testing procedures to ensure that internal controls are operating effectively throughout the Department. We also noted deficiencies related to monitoring of the internal control system as discussed in Comment **II-D, Entity-Level Controls**.

Recommendation: We recommend that the Department:

- 52 continue its corrective actions to address internal control deficiencies in order to ensure full compliance with FMFIA and its OMB Circular No. A-123 approved plan in FY 2018.
- 53 conduct complete risk assessments to identify significant risk areas and continuously monitor and test the financial and IT controls within those areas.

III-H Single Audit Act Amendments of 1996 (Single Audit)

FEMA is the primary grantor in DHS, managing multiple Federal disaster and non-disaster grant programs. The *Single Audit Act Amendments of 1996*, as implemented by Title 2 of the Code of Federal Regulations (CFR), Part 200 - *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Super Circular), requires agencies awarding grants to monitor their grantees; ensure they receive grantee reports timely; and follow-up on single audit findings to ensure that grantees take appropriate and timely action. Although FEMA monitors grantees and their single audit findings, FEMA did not fully comply with provisions in the Super Circular in FY 2017. We noted that FEMA did not review all grantee single audit reports in a timely manner. Further, the decentralization of grants management prevents FEMA from being effectively able to monitor its grantees' compliance with applicable laws and regulations.

Recommendation: We recommend that FEMA:

- 54 implement the recommendations in Comment **II-F, Grants Management**.

III-I Antideficiency Act (ADA)

Various management reviews and DHS Office of Inspector General (OIG) investigations are ongoing within the Department, which have or may identify ADA violations, as follows:

- The independent investigation, at the Office of Intelligence and Analysis, related to the obligation of funds in excess of its continuing resolution apportionment in FY 2012 has been completed. The package to notify the President, Congress, and the U.S. Government Accountability Office (GAO) of the violation is pending OMB clearance.
- In FY 2016, Immigration and Customs Enforcement (ICE) finalized its investigation of payments made from FY 2003 to FY 2013 exceeding statutory authority for continuing to provide medical care for detainees released from custody. The package to notify the President, Congress, and GAO of the violation is pending OMB clearance.
- In FY 2015, the Management Directorate completed the investigation of an over-obligation of funds that occurred in FY 2013. In FY 2017, DHS formally notified the President, Congress, and GAO of the violation.

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Exhibit III – Compliance and Other Matters

- CBP is investigating a potential ADA violation related to overtime in excess of the annual cap established in the FY 2014 and FY 2015 appropriations acts. CBP is still working on corrective actions to finalize the report.
- DHS is investigating potential ADA violations related to 150 contracts and Other Transaction Agreements awarded from FY 2010 to FY 2016 (five with USCG, one with ICE, one with CBP, 36 with the Management Directorate, and 107 with the Transportation Security Administration) without the appropriate Congressional notification for awards greater than \$1 million.
- USSS is investigating a potential incident related to accepting voluntary services in violation of the ADA in FY 2014.
- ICE completed its investigation of a potential ADA violation related to FY 2016 expenditures made for improvements to the ICE Director's office in excess of \$5,000 without proper Congressional notification. The package to notify the President, Congress, and GAO of the violation is being prepared for routing to OMB for clearance.

Recommendation: We recommend that DHS:

- 55 complete the internal reviews currently planned or being performed, and properly report the results in accordance with the ADA, where necessary.

III-J Federal Financial Management Improvement Act of 1996 (FFMIA)

FFMIA Section 803(a) requires that agency Federal financial management systems comply with: (1) applicable Federal accounting standards; (2) Federal financial management system requirements; and (3) the United States Government Standard General Ledger (USSGL) at the transaction level. FFMIA emphasizes the need for agencies to have systems that can generate timely, reliable, and useful information with which to make informed decisions to ensure ongoing accountability.

Multiple Components did not fully comply with at least one of the requirements of FFMIA based on criteria set forth in OMB Circular No. A-123, Appendix D, *Compliance with the Federal Financial Management Improvement Act of 1996*. The reasons for noncompliance are reported in Exhibits I and II. The DHS Secretary stated in the *Secretary's Assurance Statement*, dated November 14, 2017, that the Department's financial management systems do not substantially conform to government-wide requirements mandated by FFMIA. The Department's remedial actions and related timeframes are also presented in the FY 2017 AFR.

An element within FFMIA, Federal system requirements, is ensuring security over financial management information. This element is addressed further in the *Federal Information Security Modernization Act of 2014* (FISMA). FISMA requires the head of each agency to be responsible for: (1) providing information security protections commensurate with the risk and magnitude of the harm resulting from unauthorized access, use, disclosure, disruption, modification, or destruction of (i) information collected or maintained and (ii) information systems used or operated; (2) complying with the requirements of the Act and related policies, procedures, standards, and guidelines, including (i) information security standards under the United States Code, Title 40, Section 11331, and (ii) information security standards and guidelines for national security systems; and (3) ensuring that information security management processes are integrated with agency strategic and operational planning processes.

We also noted weaknesses in financial systems security, reported by us in Comment I-A, *Information Technology Controls and Financial System Functionality*, which impact the Department's ability to fully comply with FISMA.

Recommendation: We recommend that DHS:

- 56 improve its financial management systems to ensure compliance with FFMIA, and implement the recommendations provided in Exhibits I and II.

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(Listed by Exhibit, Alphabetically)

Criteria	Reference
I-A Information Technology Controls and Financial System Functionality	
CBP 2013 Drawback Handbook, Issued (HB 3700-01B)	Section 5.2
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5.4, 5.6, & 5.11
CBP Directive No. 5610-004B, <i>Budget Clearing Account (BCA) and Suspense Item Report (ACSR-CL-800)</i> Attachment	Part 8
Code of Federal Regulations, Title 19	§113.13, §113.66, §191.51, & §191.92
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803
<i>Federal Managers' Financial Integrity Act of 1982</i>	Section 2
GAO Financial Management FFMIA Implementation Critical for Federal Accountability (GAO-02-29)	Page 1, Paragraph 2
GAO Standards for Internal Control in the Federal Government (GAO-14-704G)	Overview Section 1 & 2 Principle 10, 11, 12, & 16
OMB Circular No. A-136, <i>Financial Reporting Requirements</i> , Revised	Section V
OMB Memorandum M-13-23, <i>Appendix D to Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996</i>	Section 7
Treasury Financial Manual Bulletin No. 2017-07, <i>USSGL Supplement Part I: FY2017 Reporting</i>	Section IV
Treasury Financial Manual Chapter 4700, <i>Agency Reporting Requirements for the Financial Report of the United States Government</i>	Section 1 & 2
US Code Title 31, Chapter 15	§1501
I-B Financial Reporting	
Code of Federal Regulations, Title 5	§1315
<i>Component Requirements Guide for Financial Reporting in FY 2017</i> , Version 1.0	Sections 7 – 9
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803
GAO Federal Information System Controls Audit Manual (GAO-09-232G)	Section 2 & 4

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Criteria	Reference
<i>GAO Financial Management FFMA Implementation Critical for Federal Accountability (GAO-02-29)</i>	Page 1, Paragraph 2
<i>GAO Standards for Internal Control in the Federal Government (GAO-14-704G)</i>	Overview Section 1, 2, & 4 Principles 2 - 4, 7, 9 - 14, 16, & 17
<i>NIST Special Publication 800-53, Revision 4, Security and Privacy Controls for Federal Information Systems and Organizations</i>	Chapter 2
<i>OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget</i>	Section 120, Appendix F
<i>OMB Circular No. A-136, Financial Reporting Requirements, Revised</i>	Section V
<i>OMB Memorandum M-13-23, Appendix D to Circular No. A-123, Compliance with the Federal Financial Management Improvement Act of 1996</i>	Section 7
<i>OMB Memorandum M-16-17, OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control</i>	Section III
<i>OMB, 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i>	§ 200.513
<i>Statement of Federal Financial Accounting Standards 5: Accounting for Liabilities of the Federal Government</i>	Summary, Paragraphs 22 & 67
<i>Statement of Federal Financial Accounting Standards 7: Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 79
<i>Statement of Federal Financial Accounting Standards 33: Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i>	Summary, Paragraph 33
<i>Treasury Financial Manual Bulletin No. 2017-07, USSGL Supplement Part I: FY2017 Reporting</i>	Section III & IV
<i>Treasury Financial Manual Chapter 4700, Agency Reporting Requirements for the Financial Report of the United States Government</i>	Section 1 & 2

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Criteria	Reference
US Code Title 31, Chapter 15	§1501, §1554
II-C Entity-Level Controls	
<i>Component Requirements Guide for Financial Reporting in FY 2017, Version 1.0</i>	Section 3 & 8
DHS Management Directive System, MD 1030, <i>Corrective Action Plans</i>	Section VI
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803
<i>GAO Standards for Internal Control in the Federal Government</i> (GAO-14-704G)	Section 1, 2, & 4 Principle 2 - 5, 7, 9-10, 12 - 14, 16, & 17
NIST Special Publication 800-53, Revision 4, <i>Security and Privacy Controls for Federal Information Systems and Organizations</i>	Chapter 2
OMB Circular No. A-50, <i>Audit Follow Up</i>	Section 1 & 5
OMB Memorandum M-16-17, <i>OMB Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control</i>	Section III
Statement of Federal Financial Accounting Standards 5: <i>Accounting for Liabilities of the Federal Government</i>	Summary, Paragraph 67
Statement of Federal Financial Accounting Standards 33: <i>Pensions, Other Retirement Benefits, and Other Postemployment Benefits: Reporting the Gains and Losses from Changes in Assumptions and Selecting Discount Rates and Valuation Dates</i>	Summary, Paragraph 33
II-D Property, Plant, and Equipment	
<i>Federal Financial Management Improvement Act of 1996</i>	Section 803
<i>GAO Standards for Internal Control in the Federal Government</i> (GAO-14-704G)	Section 1 Principle 3, 5, 10, 12, 13, & 16
OMB Circular No. A-136, <i>Financial Reporting Requirements</i> , Revised	Section II
Statement of Federal Financial Accounting Standards 6: <i>Accounting for Property, Plant, and Equipment</i>	Paragraph 39
USCG, Audit Remediation Division (CG-845), <i>Interim Standard Operating Procedure, CG-845 Construction-in-Progress Monthly Periodic Review Process</i>	Section 5

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(Listed by Exhibit, Alphabetically)

Criteria	Reference
USCG, <i>Financial Resource Management Manual - Procedures</i> , COMDTINST M7100.4	Section 7 & 10
II-E Custodial Activities: Entry Process and Refunds and Drawbacks	
CBP 2013 <i>Drawback Handbook</i> , Issued (HB 3700-01B)	Section 5
CBP Directive 5610-004B, <i>Resolving Certain ACS Exception and Error Reports</i>	Section 5
CBP Directive No. 5610-004B, Budget Clearing Account (BCA) and Suspense Item Report (ACSR-CL-800) Attachment	Part 8
Code of Federal Regulations, Title 19	§111.25, §113.13, §113.15, §113.65, §163.4, §191.15, §191.38, §191.51, & §191.92
GAO <i>Standards for Internal Control in the Federal Government</i> (GAO-14-704G)	Principle 10, 11, 12, & 16
Statement of Federal Financial Accounting Standards 7: <i>Accounting for Revenue and Other Financial Sources and Concepts for Reconciling Budgetary and Financial Accounting</i>	Paragraph 53
II-F Grants Management	
FEMA CF-FM, <i>Accounting Accrual - Grants - PARS</i> , Number 2600-001, Version 9.0	Step 7, Appendix B
FEMA CF-FM-AA, <i>Disaster Grants and FEMA/State Agreement Closeouts</i> , Number 2600-017, Version 4.0	Chapter 4
FEMA <i>Single Audits of Federal Financial Assistance</i> , FD 077-2 Revision Number: 01	Section A, Section D
GAO <i>Standards for Internal Control in the Federal Government</i> (GAO-14-704G)	Section 1 & 2 Principle 10, 11, & 12
OMB, 2 CFR Chapter I, and Chapter II, Parts 200, 215, 220, 225, and 230, <i>Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i>	§ 200.501, § 200.513, & § 200.521

Criteria.4